State of California
Department of Finance

Chart of Accounts–Acquisition Project

D7: Strategy/Business Case for COA Revisions

Final Draft Version 2.4
September 1, 2006

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September 1, 2006

Sue Bost
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Dear Sue,

Informatix is pleased to present the final D7 Deliverable: Strategy/Business Case for COA Revisions for the BIS Chart of Accounts–Acquisition Project. This final document reflects comments received from stakeholders and the COA Strategy Panel conducted on August 29, 2006. It represents the formal delivery of Deliverable E.7.

We appreciate the input, involvement and participation from BSDU and other state stakeholders who have reviewed and contributed to this report.

Sincerely yours,

Signature on file

Michele Blanc
Director, Professional Services Group

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1 Document Revision History

Date	Version	Last Updated By	Status/Comments
7/24/06	1.0	Informatix	Initial Draft
7/27/06	1.1	Informatix	Internal Review Draft
7/31/06	1.2	Informatix	Draft submitted to Finance
8/17/06	2.0	Informatix	Final Draft submitted to Finance based on comments received on 8/10/2006
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9/8/2006	2.3	BSDU	Based on additional comments received from DGS
9/15/2006	2.4	Informatix	Change to signature page based on direction from BSDU director

2 Executive Summary

In 2001 the Department of Finance (Finance) established a new unit currently called the Budget Systems Development Unit (BSDU), to document Finance's financial management processes, propose changes to those processes through a business process re-engineering study, and prepare a Feasibility Study Report (FSR) to replace its legacy systems. After the BSDU completed these review and recommendation activities the Budget Information System (BIS) project was initiated to replace Finance's existing budget development and administration legacy systems with a commercial-off-the-shelf (COTS) budget information system that will be implemented by a system integrator. The first phase of the BIS Project involves an analysis of the state's current chart of accounts (COA) in order to establish a structured methodology for transitioning from the current COA to a future COA and a strategy for updating the chart of accounts. As the state embarks on enterprise-wide system implementation projects such as this BIS Project and the SCO's 21st Century Project, it is recognized that a review of the current COA is necessary.

2.1 ANALYSIS

In conducting the BIS COA analysis, the project team gathered data through a combination of surveys, workshops, interviews, and panels with state agencies and departments. The results of the data gathering and analysis were presented in a series of interim reports that evaluated the state's current COA to develop recommendations for a strategy to update the COA.

- **D2 – Comparison Report**: This report discusses the structures and elements in the current COA, and identifies areas where the Uniform Codes Manual (UCM) does not meet statewide or departmental needs. The report examines a variety of systems used by state agencies to meet financial and budgetary needs, and reviews three Enterprise Resource Planning (ERP) systems in use at state agencies, focusing on their COAs.
- **D3 – Budgetary/Legal vs. GAAP Basis Reporting**: This deliverable provides an overview of the state's need for both budgetary/legal basis accounting and reporting requirements and Generally Accepted Accounting Principals (GAAP) and Governmental Accounting Standards Board (GASB) basis of accounting and reporting requirements (including adopted/issued requirements in GASB statements 34 and 35). This deliverable also includes a narrative analysis of the state's budgetary/legal and GAAP basis financial statements, and a comparison of the reporting, system and classification requirements.
- **D4 – COA Summary Report**: This report provides an analysis of the BIS Project Team's research results, highlighting key strengths, weaknesses, gaps and improvement opportunities related to the UCM classification structures. ERP product considerations are included in the deliverable.
- **D5 – Budgetary/Legal Basis vs. GAAP Reporting Requirements**: This deliverable (1) analyzed data used to support statewide budget/accounting reporting (e.g., financial management reporting to support the decision-making process), (2) considered the state's financial reporting requirements in terms of strengths, weaknesses, gaps and growth opportunities, and (3) assessed fit

against three ERP solutions to support the state's current budgetary/legal basis reporting while using software that meets GAAP reporting requirements.

2.2 Recommended COA Redesign Strategy

Numerous key impacts and issues were identified by project participants. These impacts and issues formed the basis of the transition strategy. Consequently, the recommended COA redesign strategy includes:

- A discussion of the assumptions, benefits, and critical success factors related to redesigning the state's COA.
- The identification of risk factors and contingencies – possible constraints or roadblocks to implementing the change.
- A discussion of specific recommended COA revision activities aligned to the specific strategic drivers (UCM preservation, ERP classification structure evolution, centralized administration) discussed in *Section 5 – Key Issues/Impacts* of this document.
- The sequence/timing of recommended COA activities.

The following table organizes the key impacts and issues as follows:

	Budget Development	Budget Administration	Statewide Financial Reporting
UCM Preservation			
A: Mitigating Weaknesses/Gaps	**A1:** Statewide vs. Departmental Needs	**A2:** System Usage **A3:** Multi-Period Activity	**A4:** SCO ARMS Databases
B: ERP Functions/Tools	**B1:** Forecasting/ Analysis	**B2:** Operational Reporting	**B3:** Budgetary/Legal and CAFR Reporting
C: Statewide Best Practices	**C1:** Budget Formulation	**C2:** Business Process Integration	**C3:** Statewide Financial Reporting Development
ERP Classification Structure Evolution			
D: ERP Modules	**D1:** Project and Grant Classification	**D2:** Classification Structure Usage	**D3:** Enterprise Data Model
E: Statewide Processes	**E1:** Project and Grant Accounting	**E2:** Appropriation and Allocation Control	**E3:** Budgetary/Legal and GAAP Basis
F: Classification Structure Updates	**F1:** Legislation and Statutory Changes	**F2:** Spending Authorization	**F3:** Reporting Requirements Changes
Centralized Administration			
G: Greater Complexity	**G1:** Configuration Management		
H: Broader Scope	**H1:** Business Analyst v. General Support		
I: Training Magnitude	**I1:** Communication		

Table 1 - Recommended COA Revision Strategies

The activities identified as part of each strategy have been sequenced to support near-term and long-term COA revisions. The recommended sequence and timing is aligned against the following three broad time frames:

- **Pre-Selection** – those activities that the state can undertake prior to the selection of a solution for BIS. These are activities that are not dependent on the particular ERP solution and would benefit the state if undertaken in the near term (beginning in the fall of 2006)
- **During Selection/Prior to Implementation** – these are activities that should be undertaken once the state has identified the ERP solution for BIS, but has not formally begun the implementation effort. These are activities that are dependent on the actual ERP solution selected by the state.
- **Implementation** – these are activities that should be undertaken once the formal BIS implementation activities have been launched. It should be noted that many of these recommended activities may be adjusted based on the specific COA implementation methodologies of the selected system integrator and product vendors.

The result of this timing alignment is a high-level ***Transition Plan*** and ***Schedule*** that provide a set of relative timeframes and activities for incorporation into the overall ERP implementation plan.

As part of the COA revision efforts (and as part of the overall BIS project), a change management program will need to be put in place by the BIS project governance bodies and the BIS Project Team, including the following:

1. Develop an ***organization readiness assessment*** to identify issues that may impede change and resistance points across the state. The COA Strategy Panel and the BIS workgroup provide an excellent foundation to further explore interventions and activities to address anticipated change.
2. Based on the readiness assessment, the BIS Project should develop an ***organization transition guide*** to assist Finance and other key control agencies in determining the need to address any changes in roles required to support the new or revised business processes resulting from revising the COA. While there will most likely be minimal impact to roles based on revisions to the COA, there will be significant changes with the implementation of BIS. The organization transition guide drafted to support the COA revision recommendations can be the foundation to plan for organization, role and job adjustments to support new business processes resulting from the implementation of BIS.
3. ***Deploy "Change Agents"***. With an understanding of readiness and an organization transition guide, deploying key change agents throughout the state is critical in increasing the speed and smoothness of adopting the recommended changes. It is largely through "change agents" that the interests and issues of the various impacted stakeholder groups can be directly addressed.
4. ***Mobilize the COA Workgroup***. A COA workgroup composed of state representatives has been actively participating in the COA analysis phase of the BIS project. The workgroup is composed of state staff with diverse knowledge, skill sets and backgrounds. It is important the BIS Project continue to use this workgroup to help implement many of the activities identified in this report.

5. As the BIS Project has recognized, an effective ***Communications Program*** is essential to the success of BIS. Project related information including milestones, benefits and impacts must be disseminated to targeted stakeholders.

Lastly, recommendations are provided for a framework for the state to effectively maintain an evolving COA, and organizational strategies to expand the current governing structure. Several factors will influence future changes to the classification structure as shown in the figure below.

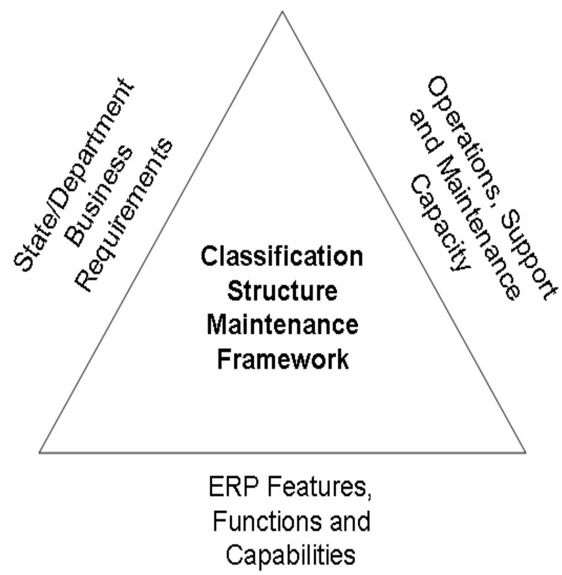

Figure 1 – Classification Structure Maintenance Framework

- **State/Department Business Requirements**: There are a variety of influences on business requirements, such as changes in legislation, Federal regulations, industry standards or what are considered best practices. These changes will necessitate changes in ERP-supported business processes and the classification structure. The state should plan for these eventualities, assuming the business requirements of the state and departments will change periodically. And, at times, a change to the classification structure might be necessary to support the new or enhanced business process.
- **ERP Features, Functions, and Capabilities**: As ERP solutions mature, particularly with respect to their ability to support the public sector, the state should plan on modifying the classification structure to take advantages of new or enhanced features, functions and capabilities.
- **Operations, Support and Maintenance Capacity**: Planning should proceed to facilitate communication, evaluation, education and support of new or changed business processes. Changes to the classification structure will be constrained by the state's ERP operations, support, and maintenance capacity.

From an organizational perspective, there are three recommendations:

Reorganize the Current Governing Body – "The UCM Committee" – It is recommended that the state charter/reconstitute the multi-department UCM Committee with ultimate responsibility for the review and approval of changes to the classification structure. Membership would consist of financial control agency representatives responsible for the operation of the ERP and a cross-section of user departments.

Offer a Vehicle for User Input – "UCM User Group" – Another key element of this strategy is the formal institution of a UCM User Group hosted and facilitated by Finance's Fiscal Systems Consulting Unit (FSCU). This group would provide a forum for broader departmental participation and provide for more frequent discussions about statewide and departmental needs related to the chart of accounts.

Establish an Internal Knowledge Bank or "Center of Excellence" – Training is a critical element of the initial ERP implementation, and is crucial to the ongoing success of the ERP system. When considering the broad scope and pervasive nature of an ERP solution, any training conducted around the COA should relate to the business processes and system functions supported by the new system. In addition, the state will want to leverage experience, "tips and tricks" and proven training methods developed through successive rollouts to the state's departments. A central organization or "Center of Excellence" can serve this function.

3 Introduction

In 2001, Finance established BSDU, to document Finance's financial management processes, propose changes to those processes through a business process re-engineering study, and prepare a FSR to replace its legacy systems. The team was charged with exploring ways to improve the efficiency and quality of those processes through the appropriate use of new technologies.

The BSDU finalized the business process re-engineering study in March 2005 and a FSR (available at http://www.dof.ca.gov/BIS/BIS_home.shtml) was completed and approved in July 2005 to formally initiate the BIS Project. The objective of the BIS Project is to replace Finance's existing budget development, administration and financial management legacy systems with a commercial-off-the-shelf (COTS) budget information system that will be implemented by a system integrator. A comprehensive statewide financial system, beginning with the budget component, will be implemented to support the state's fiscal and policy decision processes and when fully deployed will support the budget development, administration and financial management needs of departments and agencies.

To support this transition, the first phase of the BIS Project involves an analysis of the state's current chart of accounts (COA) in order to establish a structured methodology for transitioning from the current COA to a future COA. The results of this first phase are documented in this report, which presents a strategy for updating the COA that will be developed by the system integrator based on the selection of a COTS ERP software solution for BIS.

3.1 Background

The state's current chart of accounts, used to support financial transaction processing, budgetary and statewide financial reporting, budget development, and budgetary control is largely defined in the Uniform Codes Manual (UCM). The UCM was developed 27 years ago (circa March 1979) in response to Government Code 13300 that mandated Finance to develop, install, and supervise a complete accounting system for each agency of the state. AB 3322 (Chapter 1284, Statues of 1978) modified and reaffirmed the mandate, requiring the development of a coding system that would provide for accurate and comparable records, reports, and statements of all the financial affairs of the state.

The UCM was also developed to provide the State Controller's Office (SCO) with all required information in order to maintain central accounts for the state. Additionally, departments are required to use the UCM for reporting to the SCO, and for financial management purposes. The intent is for the Governor's Budget, the Budget Bill/Act, and the records of the SCO to utilize a uniform coding system to allow budget-to-actual expenditure comparisons and estimated-to-actual revenue comparisons.

Over time, the reporting and management needs of the state have changed, from both a statewide and departmental perspective. Also, it has become increasingly important to be able to prepare financial and budgetary reports on a statewide basis. Although updates have been made to the UCM, it exists today essentially as it did when it was developed. As such, it has not kept pace with the changing needs of the state.

As the state embarks on enterprise-wide system implementation projects such as this BIS Project and the SCO's 21st Century Project, it is recognized that a review of the current COA is necessary.

3.2 Overview of the BIS COA Analysis Project

In conducting the BIS COA analysis, the project team gathered data through a combination of surveys, workshops, interviews, and panels with state agencies and departments. The specific data gathering and analysis activities of the COA analysis project are described below:

- **COA Workshops**[1] – Workshops with department accounting and budgeting subject matter experts were conducted to discuss COA needs as well as strengths, weaknesses, and gaps in the current COA. The workshops were organized around specific subject areas:
  - Budget Development/Budget Administration – These sessions focus on the state's budget development and administrative cycle, including the chart elements required to support the various Schedules, the Governor's Budget, Budget Change Proposal's, Finance Letters, the legislative budgets and the Budget Bill/Act. In addition, common chart elements and systems supporting department-level financial management processes were discussed.
  - Statutory Reporting. These sessions focus on statutory reporting requirements, with a particular emphasis on departmental needs.
  - Projects & Grants. These sessions focus on project and/or grant reporting requirements, with a particular emphasis on departmental needs
  - Other Management Requirements. These sessions focus on other management requirements and financial management, with a particular emphasis on departmental needs.

  The initial set of workshops was grouped according to usage of CALSTARS, i.e., departments that use CALSTARS attended sessions separately from departments that don't use CALSTARS. A second round of workshops was conducted, again organized around subject area. However, in these follow-up workshops the distinction was not made relative to CALSTARS and non-CALSTARS departments. Participants in the follow-up workshops had an opportunity to confirm, validate and expand on the results from the initial workshops.

- **Control Agency COA Workshops** – In addition to department COA workshops, the BIS Project Team conducted workshops with several of the state's control agencies - SCO, State Treasurer's Office (STO), Finance, and the Department of General Services (DGS). The objective of these workshops was to develop an understanding of the control agencies' accounting and reporting needs, and their use of the UCM. The workshops focused on gathering information about the specific COA in use, as well as needs and requirements of the agencies.

[1] A complete listing of all departments that participated in the departmental and/or control agency workshops is provided in *Deliverable D4 – Chart of Accounts Summary Report, Appendix B – Workshop Participants*.

- **COA Survey Process**[2] – In order to gain an understanding of the requirements for a COA to be implemented in a statewide accounting and budgeting system, BSDU surveyed departments and agencies in 2004 and 2005 to gather information regarding the systems and reports that the accounting and budgeting staff use.

  Following the initial COA workshops conducted as part of the BIS project in the spring and summer of 2006, a third survey was distributed to capture more detailed information from departments and agencies regarding reports they are required to generate and shadow systems/subsystems they use to meet reporting requirements. The survey gathered information related to three areas: Project & Grant reporting, Statutory & Budget Development reporting, and Management Requirements & Budget Administration reporting.

- **ERP Department Interviews** – The BIS Project Team interviewed four representative departments using or planning to use ERP solutions. As a precursor to the interview, each department completed a questionnaire detailing information about their classification structure development, implementation and administration during (and after) the ERP deployment. The departments also provided feedback during the departmental workshops as non-CALSTARS participants.

- **ERP Solutions Research** – To develop an understanding of the current ERP market the BIS Project Team researched three ERP systems: Oracle, PeopleSoft and SAP. The research focus was on available solutions, relevant components/modules and classification structure. A variety of research resources were utilized, including Gartner Group research, ERP vendors' marketing materials, project implementation web sites and other resources (e.g., user group conference presentations, academic research, etc.).

- **ERP Educational Workshops** – The BIS Project Team hosted educational demonstrations during which three vendors provided information to state staff about their ERP systems: CGI-AMS, Oracle (offering two systems – Oracle and PeopleSoft), and SAP. These sessions were arranged for Finance staff and other interested parties to highlight the conceptual differences between legacy systems and current ERP systems.

- **Departmental Panels** – Following the departmental workshops, panels were convened to support the development of two deliverables: *D6 – Dictionary of Common Terms and Practices* and *D7 – Strategy/Business Case for COA Revisions*. The intent of the panels was to serve as a "sounding board" for each deliverable by providing input on specific issues identified during the workshops and provide feedback on interim work products.

The results of the data gathering and analysis activities have been presented in series of reports to Finance, and are described in Section 4.0 – Analysis Summary of the report presented in this document.

[2] A complete listing of departments that responded to one or more surveys is provided in *Deliverable D4 – Chart of Accounts Summary Report, Appendix A – Survey Respondents.*

3.3 Scope of the Strategy/Business Case for COA Revisions

The Strategy/Business Case for COA Revisions, presented in this document, is the last in a series of six (6) reports that evaluated the state's current COA to develop recommendations for a strategy to update the COA.

The Strategy/Business Case for COA Revisions documented in this report consists of the following:

- Identification of COA revision activities that can be undertaken to support the implementation of BIS.
- The sequence/timing of recommended COA revision activities.
- Risk factors and contingencies – discussion of possible constraints or roadblocks to implementing the change.
- Critical success factors related to the recommended activity.

Please note that ERP vendors typically provide a structured methodology for incorporating the COA needs into their product solution, including structured steps and processes to configure the chart of accounts in the new application. The strategies and recommendations for the state's COA documented in this report do not take the place of these ERP solution-based methodologies; however the recommendations will set the stage for using those methodologies during the actual BIS implementation phase.

In addition, some of the discussion, analysis and recommendations included in this report extend beyond COA issues. This is due to the broad nature of enterprise-wide solutions; the state's choice of ERP solution, functional modules and implementation approach will have a bearing on future classification structure revisions. It is difficult to make COA recommendations without touching on other facets of a future system.

4 COA Analysis Summary

As described above, the results of the COA analysis for the BIS have been presented to Finance in a series of reports; each of these is summarized below.

4.1 Comparison Report (Deliverable D2)

The *D2 – Comparison Report* discusses the structures and elements in the current COA, and identifies areas where the UCM does not meet statewide or departmental needs. The report examines a variety of systems used by state agencies to meet financial and budgetary needs, and reviews three ERP systems in use at state departments, focusing on their chart of accounts.

4.1.1 Uniform Codes Manual (UCM) Review

The UCM review involved independent research, departmental workshops, and workshops with control agencies. The results of this research can be summarized into several key findings:

- Although the UCM was originally established over 27 years ago, it still meets many of the departmental and control agency needs. Major weaknesses are limited to a few structures (e.g., object of expenditures and receipt codes), as are identified gaps (e.g., grant structure).
- Some weaknesses and gaps identified are not truly UCM problems, but rather are symptomatic of system and/or business process shortcomings. For example, the ability to aggregate data could be enhanced to some extent with changes to the UCM, but could be greatly enhanced with the addition of robust reporting tools that are accessible to users.
- Increasing the breadth and depth of the UCM with an integrated system has the potential to reduce considerable time and effort spent on redundant data entry, and on reconciliation from one structure to another and/or one system to another.

4.1.2 Financial Systems Review

Information regarding systems used by departments to support financial and budgetary transactions and reporting was gathered via a series of surveys distributed in 2004, 2005, and 2006, and entered into an Access database for analysis. Some of these systems were also discussed during chart of account workshops. Highlights from the analysis are presented below.

- Sixty-six (66) departments responded to one or more surveys (representing 32% of state departments)
- Of the respondents, forty (40) use CALSTARS only as their main accounting system, and an additional thirteen (13) departments use CALSTARS in conjunction with another system(s). Thirteen respondents do not use CALSTARS.
- Thirty-four (34) departments provided detail on over 200 systems. Analysis of these systems supports research done during the UCM Review – most of these departmental systems exist to capture greater levels of detail than what is available in the UCM today. It appears that by addressing weaknesses in the

UCM related to detailed structures, some of these departmental systems could be eliminated. Analysis also indicates that departments have turned to other systems to support reporting needs, such as federal grant reporting.

4.1.3 Enterprise Resource Planning (ERP) Systems Review

Research related to the three ERP solutions (Oracle, PeopleSoft, and SAP) was conducted with a focus on COA configuration. Research included distributing questionnaires and interviews with department users of these products, ERP vendor educational demonstrations hosted by Finance and general market research undertaken by the team. Highlights of the research are presented below.

- Although each ERP solution uses different names for the COA structures, it appears that to a large extent, the UCM could be mapped to any of the ERP solutions.
- COA configuration is a key factor in the success of an ERP implementation, and essentially provides the framework for the system.
- Administration of the COA will most likely be a centralized function.
- COA structures are utilized across modules (i.e., modules and therefore structures are integrated), requiring consistency in structures, and cooperation between stakeholders.

4.2 BUDGETARY/LEGAL VS. GAAP BASIS REPORTING (DELIVERABLE D3)

The *D3 – Budgetary/Legal vs. GAAP Basis Reporting* deliverable provides an overview of the state's need for both budgetary/legal basis accounting and reporting requirements and GAAP and GASB basis of accounting and reporting requirements (including adopted/issued requirements in GASB statements 34 and 35). This deliverable includes a narrative analysis of the state’s budgetary/legal and GAAP basis financial statements, and a comparison of the reporting, system and classification requirements.

The deliverable addresses the preparation and presentation of the *Budgetary/Legal Basis Annual Report*, and the *Comprehensive Annual Financial Report (CAFR)*. It assumes that related reports, such as the *Budgetary/Legal Basis Report Supplements* and *Popular Annual Financial Report*, are subsets of the *Budgetary/Legal Basis Annual Report* and *CAFR*. The observations noted in this document apply to those related reports as well. The state also prepares additional financial reports such as grant reimbursement reports, statutory reports and other financial management reports. *Please note that these other financial reports were not addressed in this deliverable.*

4.3 COA SUMMARY REPORT (DELIVERABLE D4)

The *D4 – COA Summary Report* provides an analysis of the BIS Project Team’s research results, highlighting key strengths, weaknesses, gaps and improvement opportunities related to the UCM classification structures. ERP product considerations are included in the deliverable.

4.3.1 Key Strengths, Weaknesses, Gaps and Improvement Opportunities

During departmental and control agency workshops, participants discussed strengths, weaknesses, gaps and improvement opportunities of the UCM its current COA. The following is a summary of key points presented in the D4 deliverable.

- Key Strengths of the UCM
  - Longevity – The longevity of the UCM provides a foundation for consistency and usability.
  - Consistency – The UCM supports budget development and statewide financial reporting. It provides quality data for decision making both at the state and departmental levels.
  - Comprehensiveness – The comprehensiveness of the UCM structures allows for adequate statewide and departmental administration of budgeting and accounting.
  - Usability – UCM structures have been in use for over 25 years. The purpose of these structures and their impact on system is well known.
- Key Weaknesses of the UCM
  - Inconsistent Definitions and Usage – Structural evolution has not kept pace with changing business standards and environments. Misuse of codes can produce erroneous information.
  - Lack of Flexibility to Meet Departmental Needs – Departments rely on external structures and processes to support their business operations, sometimes due to the limited detail available in the UCM.
  - Lack of Modernization – The UCM does not adequately address many new business requirements.
  - Accounting Reconciliations – Reconciliation is required between the departmental and control agency systems, as these systems utilize variations of the UCM to support specific processing needs.
- Gaps and Improvement Opportunities
  - Capture Accounting Activity Using Unique Classification Structures/Elements – The need to capture different types of accounting data and classify accounting data in different ways has taken on greater importance.
  - Include More Detailed Coding Elements in the UCM to Meet Departmental Needs – The UCM has the capacity to provide greater detail required to support departmental needs.
  - Retire Obsolete Coding Elements – Archaic UCM classification values can lead to inaccurate financial transaction coding.
  - Enhance Comparability Between Departments – Specific UCM classification structures can be reorganized to enhance comparability for decision making purposes, such as program or department.
  - Enhance Flexibility to Support Changing Business and Reporting Requirements – The UCM should provide greater flexibility to meet evolving business and reporting requirements.

- Integrate Financial Systems – Lack of financial system integration creates redundant steps in business processes that are often performed manually.
- Leverage Automation Capabilities to Meet Reporting Requirements – Modern ERP systems provide many options for automating the reporting process to meet the requirements of a variety of standards.
- Leverage Automation to Meet Specific Business Needs – Automation can also eliminate many of the redundant and implicit tasks that currently require disparate systems, data and businesses processes to complete.
- Enhance Governance Model to Better Administer/Control Modifications to the UCM – The UCM could benefit from an enhanced governance model to facilitate changes required by the state and other evolving standards.
- Improve Documentation and Training to Ensure Correct Usage of Codes – Expanding current documentation and training options may improve understanding and usage of the UCM classification values.

4.3.2 ERP Product Considerations

As an output of the ERP department interviews and solutions research, the following Lessons Learned, Critical Success Factors and Classification Structure considerations were identified and detailed in deliverable *D4 – COA Summary Report*.

- Lessons Learned
  - "Start with a Vision of the End in Mind" – Departments that had implemented ERP solutions noted that it was important to have a roll-out plan in place to ensure the success of the implementation.
  - Maximize ERP Benefits By Adopting ERP Best Practices – ERP solutions each have a specific design in terms of how business processes are supported and the various modules integrate. Varying from ERP best practices can have a negative impact on user acceptance and the overall value of the ERP solution.
  - Change Management – Modern ERP solutions and practices are very different from current tools and processes. The magnitude of the potential changes should be carefully considered and weighed as part of the overall ERP implementation.
  - ERP Systems Require Greater Centralized Control/Configuration – ERP Systems are much more complex than the legacy environment and are tightly integrated to support various business needs. These systems and their classification structures demand more centralized control from an experienced group in order to maintain the integrity of the system.
  - Technology Implications May Be Significant – Modern ERP solutions require modern hardware that can run the architectural platforms that are the foundation of the system used to handle processing, transactions and transport of data.
- Critical Success Factors
  - Executive Support – Departments that implemented ERP systems noted that consistent and strong executive support is required to ensure the success of the product.

- Involve Key Managers/Staff (Subject Matter Experts) – Involving key managers and staff who can provide experience and expertise is critical to the success of the project.
- System and User Training – Training end users on the usage of the new system and business practices will help establish user acceptance and increase the value of the implementation.
- Change Management – As noted above, ERP systems differ greatly from legacy systems. Significant resources should be dedicated to this process to ensure the success of the implementation.
- Service-oriented Support and Maintenance Organization – Maintenance and operations support should involve a team of pro-active support staff whose responsibilities will be expanded, requiring additional skills and capabilities.

- Classification Structure Considerations
  - ERP Classification Terminology/Approach – ERP systems often employ different classification terminology and approach standards. Embracing these new standards yields greater benefits than modifying them to match legacy standards.
  - ERP Classification Mapping to UCM – Communicating the relationship and impact of how the UCM maps to the new ERP classification structure is a key component of the implementation.
  - ERP Classification Utilization – New business functionality may impact both the classification structure and departmental systems (and their data structures). Understanding the implications of new functionality and the impact on existing systems will ease the impact of transitioning to the ERP.

4.4 Budgetary/Legal Basis vs. GAAP Reporting Requirements (Deliverable D5)

The *D5 – Budgetary/Legal Basis vs. GAAP Reporting Requirements* deliverable (1) analyzed data used to support statewide budget/accounting reporting (e.g., financial management reporting to support the decision-making process), (2) considered the state's financial reporting requirements in terms of strengths, weaknesses, gaps and growth opportunities, and (3) assessed fit against three ERP solutions currently used in departments, to support the state's current budgetary/legal basis reporting while using software that meets GAAP reporting requirements.

The scope of the document addresses current classification structure usage for specific statewide reports (e.g., the *Budgetary/Legal Basis Annual Report and Supplement*) and departmental reporting categories. Given the diverse nature of departmental reporting, the categorization of departmental reports (e.g., Management Control Reports, Grant Management Reports, etc.) was used to aggregate and analyze reports with similar requirements.

4.4.1 UCM Fit to State Reporting Requirements

In terms of satisfying the state's financial reporting requirements, the following summarizes key points regarding the current classification structure:

- **Statewide Financial Reporting -** The UCM and extended SCO Accounting and Reporting Management System (ARMS) classification structures provide adequate classification for the production of the *Budgetary/Legal Basis Annual Report and Supplement* and *Comprehensive Annual Financial Report*.

- **Statewide Budget Development and Control -** The UCM structure provides a foundation for the budget development process. This is particularly true for the Fund Source/Appropriation, Organization, Fund, Program and higher levels of Object and Receipt codes.
- **Departmental Management Reporting -** Although the UCM structure provides a base for department-level management reporting, departments often need additional detail in order to manage their specific business operations. This is particularly true with general ledger (or subsidiary general ledger) accounts, object of expenditure codes, and receipt codes.
- **Project/Grant Reporting -** The UCM does not provide a statewide project or grant structure – these structures are developed at a department-level to support a particular department focus. Departments with a strong capital outlay focus have developed their own project structure to account for project activity; and those that are heavily grant-funded have established in-house grant management solutions (with an accompanying grant structure) to properly handle grant accounting.

The statewide business processes and selected departmental business process (e.g., appropriation control) are generally well supported by the UCM classification structure. Departments have developed additional classification structure detail to support unique business activities, particularly in the object and receipt code structures. As the move to statewide financial system solutions is made, a few observations about the impact on current reporting:

- Statewide Budget Development and Control reporting is often handled through dedicated systems at the department level. Transition to a statewide budgeting system solution will potentially replace these solutions but will need to accommodate department-level variations in budget development and control.
- During the transition to statewide financial and budgeting system solutions, it will be important to recognize that departmental Management Control reports and Project/Grant reports will be impacted. Many of the systems providing these reports will either be replaced, require modification to accommodate the new solutions, or otherwise incur business process changes.
- Project and Grant reporting will likely change as new statewide systems offer business functionality and classification capabilities not available in current systems. Although this has the potential for greater insight into project and grant activities, it will undoubtedly impact departments accustomed to working with systems tailored to meet their specific needs.
- Statutory Reporting, especially statewide reports, has the potential to be improved through additional data elements and attributes available in new statewide systems.

4.4.2 ERP Solution Fit to State Reporting Requirements

Deliverable D5 – Budgetary/Legal Basis vs. GAAP Reporting Requirements provides a financial reporting fit assessment of the state's reporting requirements against current ERP offerings available from three vendors. The vendor solutions assessment considered systems either in production or under implementation at state agencies or departments. Please note that t*he vendor products* discussed in the Deliverable are intended only to provide a basic understanding of how each solution might possibly be established to provide adequate classification structure coverage – *it is not meant to provide guidance or recommendations for configuration of any solution or product.* The table below summarizes the fit assessment.

ERP System	COA Fit	Reporting Fit
Oracle E-Business Suite	Direct mapping to Accounting FlexFields for all UCM structures except Appropriation.	Oracle and third-party tools available for reporting against the GL and/or other modules (i.e., GA for grant reporting).
Oracle PeopleSoft Enterprise	Direct mapping to ChartFields appears possible for all UCM structures.	PeopleSoft and third-party tools available for reporting against the General Ledger and/or other modules (i.e., Grants for grant reporting).
mySAP Business Suite	Direct mapping to key Master Data appears possible for UCM structures except Appropriation.	SAP and third-party tools available for reporting against the FI, FM and/or other modules (i.e., GM for grant reporting).

Table 2 - ERP Solution Fit to State Reporting Requirements

5 Key Issues/Impacts

Transitioning from the current UCM classification structure to an enhanced set of classification structures, elements and values is essential to fully recognize the benefits of a new COTS ERP system. Fortunately, the state's current UCM is an excellent foundation for a set of future structures, since the focus of the original design was based on (1) "industry standard" classification structures of the Government Finance Officer's Association[3] and (2) the objective to satisfy state business requirements – requirements that will continue to remain even after the new ERP solution is implemented.[4]

5.1 Factors Influencing Issues and Impacts

To identify potential issues impacting the state's classification structure during an ERP implementation, there are three elements to consider:

1. *System factors* inherent in ERP solutions and data structures
2. *Business processes* utilizing the structures
3. *Strategic drivers* influencing how the state will transition from the existing classification structures

The state's classification structure must consider each of these factors, since each factor establishes a set of constraints and guidelines for making classification structure changes. The following subsections explore each of these points.

5.1.1 System Factors

The replacement of the current statewide budgeting and accounting solutions with an ERP suite is a significant change for the state. In contrast to the current systems, which were designed specifically for state processes, ERP solutions are designed to accommodate the needs of many different private, and more recently public sector, entities. The end result of this commercial design approach can be summarized in the following system factors:

- **COTS Software Packages**: The first factor is the concept of a COTS software package. This term refers to implementing a standard (i.e., vanilla or baseline) software application as packaged or "off-the-shelf". The intent is to minimize or eliminate customizations and leverage as much of the core application as possible. The extent to which this objective can be met will have a direct impact on the implementation costs (i.e., dollars spent on software development) and maintenance (i.e., dollars spent maintaining custom program code and retrofitting said code in updated software).
- **Best Practices Design**: The second factor is the concept of "best practices" or standard business processes. Each vendor states that their software package embodies industry best practices and those best practices are part-and-parcel of

[3] Per the CALSTARS Procedure Manual, "Seven major methods of classifying financial data have been identified. Some of these are recommended by the National Council on Governmental Accounting (NCGA). The others are used to meet special needs of agencies." The NCGA is the forerunner of the Government Finance Officer's Association (GFOA).

[4] Such as AB 3322 (Chapter 1284, Statues of 1978)

the application design. Regardless of whether these assertions are true or not, the fact is that ERP solutions are designed to be utilized in a specific fashion, with some level of flexibility to accommodate unique business needs. Configuring and operating in a way that does not embrace the "best practices" design of a particular ERP solution will have a direct impact on the implementation (i.e., dollars spent on training, communication and user acceptance) and operations (i.e., system efficiency and administration).

- **ERP Business Suites**: A third factor is the overall design of ERP solutions as software "business suites". Each ERP vendor provides a suite of functional modules designed specifically to work with other modules in the same suite. The modules are considered integrated – they pass data between each other in on-line, real-time fashion, often in two directions – as opposed to relying on interfaces, where data is passed in a batch mode from one module to another. This integrated design "tightly couples" program code between modules and allows the ERP system to present end-to-end business processes to users. For example, ERP Purchasing modules will automatically generate accounting events that are passed to the General Ledger, Budget Control/Funds Management and other accounting modules. This allows pre-encumbrances, encumbrances, payments and associated liquidations to occur in real-time. When implementing a COTS ERP, vendors recommend minimizing system customization to take advantage of this "built in" integration and complementary business functionality. Choosing not to implement certain ERP modules or requiring the implementation of solutions to meet business functionality not available through the ERP will have a direct impact on the implementation (i.e., dollars spent on system interfaces) and maintenance (i.e., interface changes to address software updates).

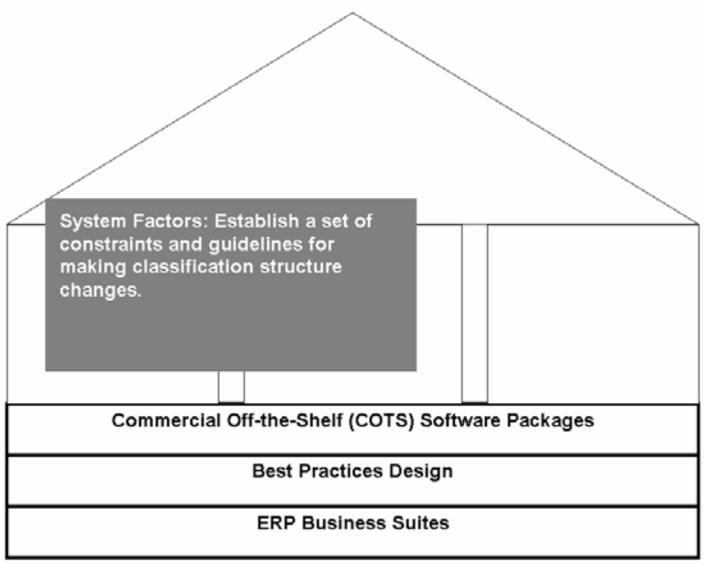

Figure 2: System Factors

These factors underscore the core challenge the state will face: *maximizing the value of the ERP investment by embracing ERP design, business functionality and technical capabilities, while leveraging the state's existing decision-making and reporting framework, business processes and knowledge base.*

An additional factor that will impact the BIS project is the current transition of ERP vendors from proprietary technology platforms to a new platform: service-oriented application (SOA) architecture. In short, SOA promises to provide discrete, basic software components that can be combined modularly to support the creation of tailored business processes. In theory this should provide organizations implementing ERP solutions with greater flexibility in tailoring a solution to meet specific business needs without the current requirement of custom programming. However, the state must keep in mind that SOA is in the initial development stages and will take several years to introduce and mature.

5.1.2 Business Processes

ERP business suites are designed to integrate different business functions (e.g., accounting, purchasing, asset management, etc.) into cohesive business processes (e.g., “order-to-pay” or “req-to-check” that covers goods/services requisition through payment). This design has the potential to offer a tremendous advantage if embraced by an organization, since it leverages what software does best: reduced data entry, automated business rules, streamlined review and approval and elimination of data redundancy. The end result is more efficient operations requiring fewer resources at a lower cost.

However, this assumes the software design (1) matches specific business requirements and (2) offers application functionality and technology to meet other requirements. For more commercial based business processes, the likelihood the ERP design addresses those two points is good. For public sector processes, the degree that the ERP design addresses those two points will be a function of how well the vendor understands public sector and has tailored the software package to meet those unique requirements.

Recognizing baseline business processes of an ERP and how they fit the state’s anticipated business requirements provides an overlay for examining the classification structure issues and impacts. These issues and impacts are evaluated along three core business processes: budget development, budget administration and statewide financial reporting.

- **Budget Development**: Budget Development may be defined simply as the activities required for budget assembly (i.e., “a plan of operation expressed in terms of financial or other resource requirements for a specific period of time”). The budget development processes are unique in public sector, since budgets are an explicit control tool and are integrated into the accounting system. This concept is fully realized in the term “appropriation”: the legal authority for a specific agency to make expenditures or incur liabilities from a specific fund for a specific purpose. Unless otherwise stated, it is usually limited in amount and period of time during which the expenditure and or encumbrance is to be incurred.
- **Budget Administration**: Budget Administration consists of monitoring authorized expenditures and preventing unauthorized spending; managing cash flows and other financial management functions. Controlling budgets (developed prior to the start of the fiscal year) is another unique feature of public sector and is typically integrated into the accounting and/or budgeting system to prevent unauthorized spending.

- **Statewide Financial Reporting**: Statewide Financial Reporting covers the compilation and presentation of financial balances and activities for a period of time, such as during each calendar month or the close of the fiscal year. Although financial reporting is not unique to public sector, the need to provide reports on multiple accounting bases is a unique requirement. For example, the state prepares a *Budgetary/Legal Basis Annual Report* and a *Comprehensive Annual Financial Report* on the budgetary/legal basis and GAAP basis of accounting, respectively.

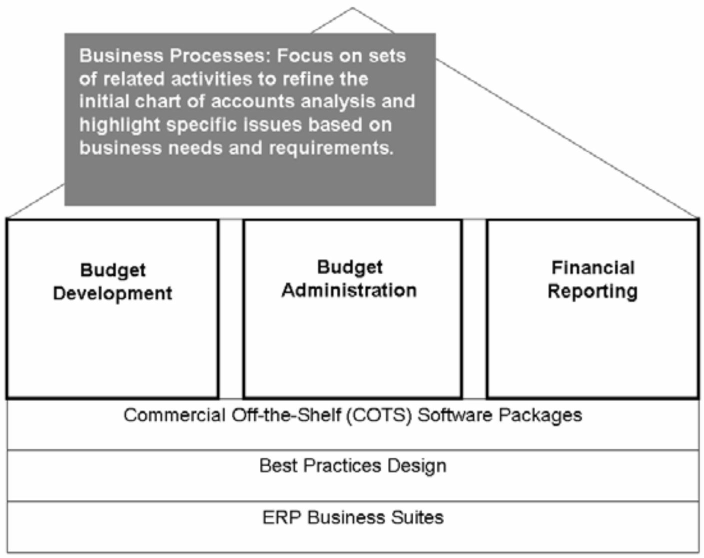

Figure 3: Business Processes

5.1.3 Strategic Drivers

The factors and processes identified above provide the context to examine the three key strategic drivers highlighted in the *D4 Deliverable – Chart of Accounts Summary Report*. An initial examination of those strategic drivers revealed high-level challenges the state would need to prepare for and address to effectively transition from the current classification structure to a new structure.

- **UCM Preservation**: The deliverable *D4 – Chart of Accounts Summary Report* concluded “The current UCM should be preserved as much as possible”. There are many advantages to limiting UCM changes ranging from the abstract (e.g., minimize change management issues) to the concrete (e.g., easier user training). However, the state’s envisioned transition to an ERP solution does offer some real benefits if the following are addressed.

– Mitigating Weaknesses/Gaps: During the BIS transition, the team should make certain structural changes to mitigate existing weaknesses and address gaps. Since many of the weaknesses and gaps are due to current business process design and system limitations, the team will need to exercise care in what classification structure changes are made.

– ERP Functions/Tools: Typical benefits of moving to an ERP are better alignment of resources/technology, increased process efficiency and overall improved decision-making. To take advantage of those benefits, the state must leverage ERP functionality and tools.

- Statewide Best Practices: Establishing best practices around how agencies utilize the existing classification structure elements and planning for changes to business processes (and correspondingly new practices) will be an element of the ERP rollout.

■ **ERP Classification Structure Evolution**: As detailed in deliverable *D4 – Chart of Accounts Summary Report*, the ERP product selected, modules deployed and business processes implemented will drive chart evolution. As discussed previously, implementing an ERP solution will yield the maximum benefit if the state considers the following:

- ERP Modules: The BIS Project Team will ideally determine functions and/or business processes to be implemented at the beginning of the project. These decisions will impact requirements for new chart elements (e.g., grant management) and the modifications to current chart elements (e.g., general ledger).
- Statewide Processes: ERP systems are designed as integrated solutions - a single platform for multiple business functions and processes. Although the state must provide flexibility to address the unique business operations of departments, collaboration and consistency with classification structures, business processes, policies, and procedures across control agencies should be thoughtfully evaluated and introduced where possible to maximize the value of the ERP.
- Classification Structure Updates: Transition to an ERP system provides a catalyst for the state to assess the current UCM classification structure values in terms of relevance, utility and meaningfulness. For example, the current Object of Expenditure and Receipt codes can be reviewed and revised (i.e., “cleaned-up”) as a precursor to implementation activities, which will allow the team to focus on other activities during the implementation. These types of changes can be tracked and administered by Finance’s FSCU, CALSTARS and other relevant business units.

■ **Centralized Administration**: The changing nature of the ERP solution translates to changes in the current operations, support and maintenance activities. Consider the following high-level points that will influence future activities.

- Greater Complexity: ERP systems’ design and technology differ from the traditional legacy design and require a marked change in the skill set and knowledge base required to support ERP solutions. This issue applies to the ERP classification structure, where classification structure tables will have different configuration settings and business process impacts than existing legacy solutions. Acknowledging, understanding and managing this new level of complexity will impact the utility the ERP solution offers departments.
- Broader Scope: The broader scope of ERP solutions will result in a correspondingly greater effort necessary to support those systems – a level of effort that will require more dedicated resources with broader skill sets. This administrative activity impacts the use of the classification structure elements and how well departments may leverage the ERP solution.
- Training Magnitude: The value of the ERP system can only be realized when users, departments and the state as a whole embrace it. Some of the chart of account inconsistencies between agencies or within individual agencies could

possibly be corrected through training and process improvements. The key to making those changes is through training before, during and after system implementation. ERP system education and skill development through training will impact the degree of successful adoption the state sees during rollout.

The organization, processes and resources focused on centralized administration during the ERP implementation will need to remain in place once the system is in use. *Section 6.5 – Classification Structure Maintenance Framework* discusses this need and recommendations for continuing maintenance.

A visual relationship between these three elements is shown in the figure below.

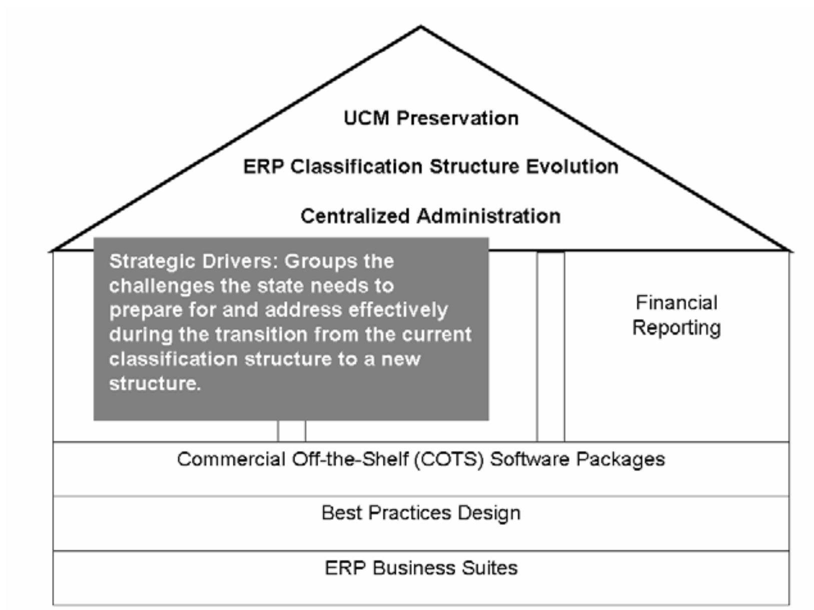

Figure 4: Strategic Drivers

5.2 Impact by Business Process

The three factors described above – system factors, business processes and strategic drivers – form an “assessment framework” with which to further explore impacts related to changing the state’s COA. In this section an assessment of issues and impacts is presented by business process:

- Budget Development
- Budget Administration
- Statewide Financial Reporting

As graphically illustrated in the diagram below, the various factors described in *Section 5.1 – Factors Influencing Impacts and Issues* permeate each of these business processes. The results of the assessment are then used to establish a set of comprehensive and cohesive strategies and action items for a future classification structure in *Section 6 – Redesign Strategy*.

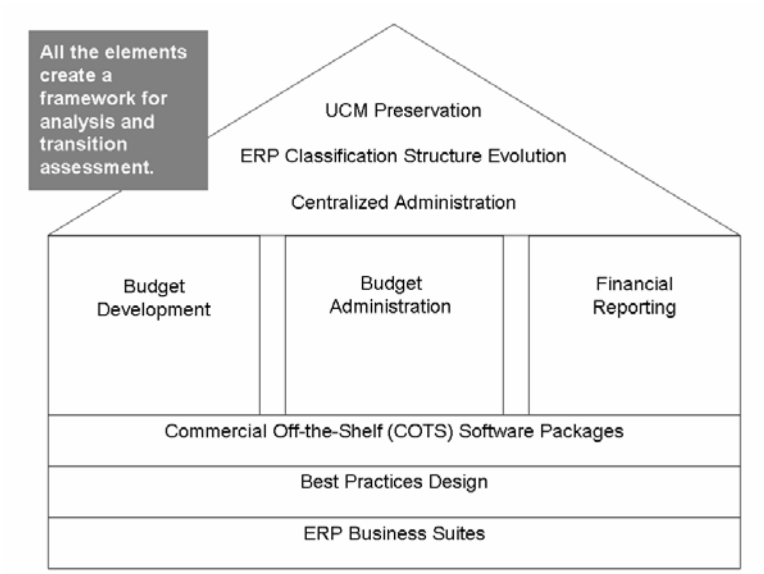

Figure 5: Assessment Framework

5.2.1 Budget Development

This section discusses the impact of classification structure changes to the budget development process.

Statewide vs. Departmental Needs

The needs and requirements at the statewide and department level differ in terms of focus, process and detail.

- *Understanding and addressing the impact transitioning department-specific budget development processes to statewide development processes will have on budgeting is crucial.* An issue with the future classification structure is supporting both statewide (i.e., program-level) and departmental (i.e., detailed) budget development. The current UCM was clearly designed to support higher-level budget development typically required by the state's executive and legislative branches. With the introduction of an ERP solution, the departmental-level budget development processes will, in part, be migrated from the department to the new system. Departmental requirements for detailed UCM classification structures will be supported in the new system.

- *Leveraging the COTS, "best practices" budget development design of the ERP packages, while tailoring or customizing the package to meet state requirements and needs is essential*. A further consideration adding to the challenge of balancing statewide vs. departmental needs is the design of ERP systems themselves. Since budget development in public sector differs from the private sector process, the level of maturity exhibited in ERP solutions and planned future ERP development will influence how good the budget development process "fit" is to the state's financial management process. For example, the implementation team will need to be aware of how different components, such as SCO's 21st Century/Human Resources system project, will impact and interface with the overall budget development system and influence "best practices."

FORECASTING/ANALYSIS

Budget development forecasting and analysis require historical data.

- *Cleansing, converting and presenting converted, historical data will be important for forecasting and analysis.* A future budget development issue is how an enhanced classification structure is used with the ERP system's forecasting and analysis tools. Access to historical financial data and the tools to manipulate, project and analyze financial activity, balances and trends will now be part of the core budget system. If past financial data is to be valuable for future forecasting, the data must be available and in a format usable by the new ERP tools.
- *Recognizing the limitations around converting department-level data and planning for how best to utilize that data in the ERP is a consideration.* This issue highlighted above takes on another dimension when considering department-level data. Since many of the data sources used by departments during the budget development process reside outside of statewide systems (i.e., department systems, spreadsheets and other data repositories are used), there will be significant challenges leveraging this historical data with the new system. Since there are so many departmental systems in use it would not be practical to maintain a legacy retrieval system.

BUDGET FORMULATION

The methods and tools used during the budget development process will be impacted.

- *Understanding the impact this change will have on the budget development and formulation, especially at the department level, is critical*. The "best practices" applied during the development and formulation of the budget potentially impacts the utilization of the classification structure. As part of the system migration, the statewide and departmental financial management processes will likely change to fit the model supported by the ERP solution. For example, departments often drive budget development depending on their individual need for detail (e.g., a revenue collecting department will need greater revenue account detail than a non-revenue collecting department). This will force an examination of classification structures to determine what detail is needed versus desired.

- *Understanding how these "off-system" formulation tools are used and how they integrate with the ERP system will be an important consideration*. A key point during budget development is the recognition that several different budgets are developed during the annual budget cycle: a statewide operating budget, an updated capital budget, department-level allocation budgets, as well as project, grant and other detail budgets for management purposes. How these budgets are formulated and the tools used to develop the final budgets will undoubtedly extend beyond the features and capabilities of the ERP.

PROJECT AND GRANT CLASSIFICATION

New system functionality will require new data elements and structures.

- *The data structures and elements used by the ERP functional modules will impact the current data structures used by departments today for classifying and tracking project and/or grant transactions.* The introduction of project (i.e., project management) and/or grant (i.e., grant accounting) modules will impact the classification structure. These modules rely on specific data elements to support the business logic and functionality in the corresponding ERP modules. To take advantage of these new capabilities, UCM additions and/or enhancements are likely and will have the greatest impact at the department level where de facto classification structures and elements exist today.
- *With departments handling these elements uniquely today, there will clearly be an impact during the transition to an ERP-supported set of business processes.* The state will need to evaluate how statewide vs. departmental project and/or grant structures will be developed. The structures used by departments today are often tied to the data structures of the systems they use for managing and tracking projects, grants and federal requirements. There will need to be an examination of the department's usage to determine if there is a common link that can be incorporated into the UCM structure.

PROJECT AND GRANT ACCOUNTING

Changes to business processes, such as project and grant accounting capabilities, will impact other business processes including budget development.

- *An understanding of the trade-offs and decision factors of new project and grant capabilities will be essential to determining the best implementation approach for the state.* As discussed above, new ERP modules will drive the need for new statewide processes and corresponding classification structures, such as project and grant. Currently, many of the business processes are designed from a departmental perspective – they are department-specific to meet unique department needs. With the addition of statewide capabilities, it will be highly desirable to find commonalities among these "disparate" processes and develop "standard" processes.
- *Understanding how these supplemental systems are used and how they integrate with the ERP system will be an important consideration.* Although ERP solutions will offer project and grant capabilities, there will be practical limits to how well the features and functions of the underlying modules will satisfy user

needs. It is likely other business systems will be incorporated to supplement the data captured by the ERP.

LEGISLATION AND STATUTORY CHANGES

The system will support configuration and parameter adjustments to reflect legislative and statutory changes.

- *The impact classification structure additions, updates and deletions have on the ERP system business processes should be considered when making changes.* Each budget development cycle will introduce new legislation and prospective statutory changes that impact the classification structure. These changes should be planned for and accommodated by establishing processes to accommodate changes. For example, tracking nominal account detail (i.e., revenues and expenditures), as well as real account balances, are likely areas impacted by legislative changes.
- *Providing adequate department-level tracking, while minimizing the complexity of supporting statewide monitoring is essential.* One other key point around detailed ledger accounts: departments often have revenue and expenditure tracking requirements that are greater than what is necessary at a state level. The additional need is often the result of additional reporting being requested or required as the result of a legislative, statutory or federal requirements change.

5.2.2 Budget Administration

This section details the impact to the budget administration (control) process.

SYSTEMS USAGE

Multiple systems are used to support business processes, such as budget administration and financial management.

- *Understanding how ERP capabilities can support statewide budget control for different groups of users while meeting varying monitoring requirements is a key issue*. An issue with the future classification structure is providing budgetary control and financial management through a single solution (i.e., CALSTARS replacement) and/or multiple solutions (i.e., CALSTARS replacement/SCO ARMS replacement). Today, departments rely on a variety of systems to control expenditures, such as in-house budget solutions, Finance's CALSTARS budget control capabilities and the SCO's ARMS Fiscal system. With the implementation of an ERP solution, departments could potentially collapse these various systems into a single solution – combining detailed budget tracking, accounting management and statutory appropriation control with one tool instead of several.
- *Determining the impact on existing department-level business processes when a new system is introduced is critical*. From a departmental perspective, in-house budgeting systems are used to provide front-line budget control and monitoring. This can include tracking not only the appropriated budget but also department allocations and, potentially, project, grant and other budgets. The ERP system will ideally replace these systems.

MULTI-YEAR ACTIVITY

Tracking activity over multiple periods is problematic.

- *The way that an ERP solution meets this need has the potential to add some value to tracking and monitoring multi-year appropriations.* An additional impact is how ancillary data elements, such as date and time period can affect the utilization of classification elements. For example, the handling of multi-year appropriations has been problematic with the current collection of systems.
- *The design of the ERP for handling multi-year activity, such as project or grant tracking, will be important to understand.* This issue has the potential to increase as departmental processes are integrated with ERP-supported business processes. For example, capital outlay projects normally require more than the "normal" budget period. Multi-year appropriations could be budgeted and tracked without utilizing other tools (e.g., spreadsheets to capture each of the multiple years).
- *The ERP will also need to handle the issues created by the state and federal fiscal years covering different periods.* For example, departments handle grant management and accounting independently, tracking grant funds according to the grantor's fiscal year, which may be different than the state's fiscal year (e.g., federal grant funds). If an ERP grant accounting module is utilized by a department, the same issues of handling date/time data elements become evident.

OPERATIONAL REPORTING

Standard and ad-hoc reporting will change with new reporting tools and data structures.

- *With this increased capability users will need to have a greater degree of knowledge of the classification structures and their relationships*. A future budgetary control and administration issue is how an enhanced classification structure is used with ERP systems operational and ad-hoc reporting tools. The state can anticipate a much greater degree of flexibility and utility for statewide and departmental reporting but the skills necessary to utilize this information will need to be imparted to the users.

BUSINESS PROCESS INTEGRATION

The "footprint" of the ERP and integration with other enterprise systems will impact budget control, financial management and other statewide processes.

- *Understanding the options for and limitations around integrating other solutions with the ERP will impact how budget control is exercised.* The "best practices" applied throughout an operating cycle for managing and controlling budget potentially impacts the utilization of the classification structure. Although the transition to an integrated, real-time system holds tremendous promise, there will most likely continue to be "core" systems outside of the ERP. For example, key financial management business functions, such as purchasing, inventory and asset management may very well be in completely self-contained systems that have limited integration from a budget control perspective with the ERP.

CLASSIFICATION STRUCTURE USAGE

New system modules and the approach to system integration will influence classification structure usage.

- *How the ERP system captures, classifies and tracks different types of financial and non-financial data will influence classification evolution.* The later introduction of new ERP modules, such as purchasing or materials management, will impact how the statewide classification structure is utilized. For example, purchasing data, such as commodity utilization, buying trends and contract compliance all impact budgeting decisions. The use of object vs. commodity code tracking for purchasing activity will be determined by the ERP modules selected and deployed throughout the state.

APPROPRIATION AND ALLOCATION CONTROL

New system capabilities (and limitations) will impact budget control options.

- *The approach an ERP solution applies to multiple levels of budget control may impact the classification structure.* New ERP modules and functionality may impact how the classification structure is used to manage and control statewide vs. departmental budgets. Currently, department-level budgets are developed at a lower level and at greater detail than required for statewide budgeting purposes. As a result, statewide budget monitoring as well as department-level monitoring is necessary to accurately track and control both department allocations and statewide appropriations.

SPENDING AUTHORIZATION

The necessity to tie program budgets and spending plans with legislative policy decisions and Budget Act appropriations will remain.

- *An ERP may utilize a similar or different coding element to provide the same appropriation tracking functionality.* Changes to the classification structure elements and/or how those elements are embodied in the new ERP system and its budgetary control approach will be required. For example, the current UCM classification structure uses an explicit coding element to track Budget Act appropriations. This structure may need to be changed to fully utilize the ERP capabilities.

5.2.3 Statewide Financial Reporting

This section discusses the impact to the state's financial reporting needs.

SCO ARMS DATABASES

Statewide financial reporting requires aggregating, compiling and processing data from many sources in dedicated systems/databases.

- *Understanding what approach is used by the ERP system for statewide financial reporting is important in determining the best approach to preparing and publishing the annual financial reports.* The usage of SCO ARMS may change with the implementation of an ERP and so will the usage of the classification structure for statewide financial reporting. Today, ARMS uses two databases to produce the year-end financial reports (the ARMS Reporting sub-system database for the Budgetary/Legal Basis Annual Report and the ARMS GAAP sub-system database for the Comprehensive Annual Financial Report). ERP solutions will likely offer a different approach for aggregating and reporting financial data that reduces and simplifies the logical and physical data storage requirements.

BUDGETARY/LEGAL AND CAFR REPORTING

Financial report development and production will change.

- *Understanding tool capabilities and applying them to statewide financial reporting requirements may impact how the classification elements are structured.* A future statewide financial reporting issue is how an enhanced classification structure is used with the financial reporting tools of the selected ERP solution. New reporting tools will likely allow for compiling and consolidating financial data in a variety of ways so as to support different sort, organization and presentation formats required by financial statements. In addition, these tools may allow for the inclusion of both structured (i.e., dollar amounts/balances) and unstructured (i.e., narrative/explanatory text) data in a fashion that is difficult to achieve today.

STATEWIDE FINANCIAL REPORT DEVELOPMENT

Each ERP solution will have an approach to producing statewide financial reports.

- *Awareness of how the ERP is designed for statewide financial reporting and options available to support differing reporting requirements is important.* The “best practices” implicit in the ERP solution impacts the utilization of the classification structure and the development of the financial reports. Since most public sector entities have to develop year-end financial reports ERP solutions will have processes in place for compiling the necessary financial data.

ENTERPRISE DATA MODEL

The enterprise data model will impact and influence how financial reports are developed.

- *Understanding what impact additional modules may have on the classification elements and how that data is made available for reporting is a consideration*. The introduction of new ERP modules, such as asset management, will likely extend the current UCM and classification structures. These modules and data structures may impact how data is compiled for statewide financial reporting purposes.

BUDGETARY/LEGAL AND GAAP BASIS

The new system’s capabilities to capture, manage and process data will influence statewide financial reporting.

- *This data source reduction and new reporting approach will change how financial data is compiled and reported on to satisfy different reporting requirements*. New ERP modules and functionality will impact how the classification structure is used to support multiple accounting bases. Currently, the state relies on multiple systems and databases to develop financial reports on both a budgetary/legal and GAAP basis. As noted above, an ERP will likely reduce the number of required data sources and/or have new methods for maintaining multiple accounting bases.

REPORTING REQUIREMENTS CHANGES

The need to reflect new reporting requirements in system business logic and parameter settings will remain.

- *As the data required by internal and external decision makers changes, it is likely reporting requirements will change as well.* Adapting to changing reporting requirements will impact classification structure configuration and business rules in an ERP system. For example, GASB 34/35 statements significantly modified and enhanced government and higher education reporting by adding new financial statement requirements (i.e., new financial statements and modified/existing statements).

5.2.4 Centralized Administration

This section discusses the impact to the state's system administration and operational support.

CONFIGURATION MANAGEMENT

The new system's design, configuration and operation will differ vastly from current systems.

- *Understanding how the ERP configuration applies to statewide and departmental business processes is an issue.* The management of the classification structure in the new ERP will be impacted on several dimensions: statewide vs. departmental, system-wide vs. module-only, statewide "best practice" vs. department-specific "business practice." As ERP business processes extend to the department level, the configuration management role will expand to encompass duties currently handled by the departments. Additionally, the introduction of system-wide business processes will expand the breadth and complexity of system administration as compared to today. Also, ERP "best practices" will likely impact departmental "business practices" and require an understanding of configuration parameters and options to balance statewide vs. departmental needs. In summary, the broad nature of ERP's will require better communication and broader understanding than what is necessary today.
- *Being aware of how configuration changes may or may not impact a process and the resulting output will also be important.* An additional issue is ongoing configuration management as departmental business operations change due to legislative, federal and other requirements. When new business requirements are translated to system table settings and parameter values, there may be a relevant impact on data classification.

BUSINESS ANALYST VS. GENERAL SUPPORT

The roles and responsibilities of the support organization will need to adapt to the nature of the new system.

- *The type and number of support resources will increase to adequately support the ERP.* The staffing and resources needed to administer and maintain the new ERP will likely expand to include a wider range of business analysts, technologists and support staff (i.e., entry-level administrators, Helpdesk personnel and others). With the focus on business processes, the role of business analyst will take on greater importance supporting department ERP parameters and configuration needs. The technologist role also becomes important due to the change in the application platform and the complexity of the new system. Lastly, increased support staff is likely due to the potential increase in system users and the varying knowledge levels of the overall user community.

Unlike the many "home-grown" systems in use today, ERP solutions are under constant development by the vendor. New features, functionality and technology will be added on a regular basis. There will be additional expense associated with the resources and infrastructure implementing these new capabilities. *Evaluating how those new capabilities are put to use; how they impact current business processes and how to introduce them to users (i.e., training) is important.*

COMMUNICATION

The breadth and depth of the new system will touch a greater number and greater variety of system users.

- *The impact of traditional and non-traditional communication methods will have in supporting ERP users must be considered and effectively addressed before, during and after the implementation*. ERP scope and complexity will add to the current communication requirements between the support and maintenance organization, and the user community. With the greater breadth of functionality offered by ERP solutions and the potential for an increased number of users, greater accessibility of support resources is a must. Methods should be in place to prioritize, route and manage user information requests. In addition, the greater complexity of ERP solutions will also mean "hands-on" training geared toward the specific business processes users will be executing is essential.

  Extending communication capabilities to provide both support-to-user and user-to-user vehicles is essential. In addition to communicating with the user community, users must have the ability to communicate with one another. In effect, each user becomes part of the support organization – providing advice, guidance and recommendations based on their use of the ERP solution.

6 Redesign Strategy

This section presents a recommended strategy for updating the state's COA, including the identification of COA revision activities that can be undertaken to support the implementation of BIS. As stated before, ERP vendors typically provide a structured methodology for incorporating the COA needs into their product solution, including structured steps and processes to configure the chart of accounts in the new application. The strategies and recommendations for the state's COA documented in this report do not take the place of these COTS product-based methodologies; however the recommendations will set the stage for using those methodologies during the actual BIS implementation phase.

This redesign strategy outlined in this section includes:

- A discussion of the assumptions, benefits, and critical success factors related to redesigning the state's COA.
- The identification of risk factors and contingencies – possible constraints or roadblocks to implementing the change.
- A discussion of specific recommended COA revision activities aligned to the specific strategic drivers (UCM preservation, ERP classification structure evolution, centralized administration) discussed in *Section 5 – Key Issues/Impacts* of this document.
- The sequence/timing of recommended COA revision activities.

It should be noted that no strategy can remain static and be successful. While the recommended activities presented in this document are assumed to occur in the near term as the state transitions toward BIS, the recommended activities and tasks may require adjustment to accommodate organizational and technological changes that will inevitably occur. As the state undertakes the recommended COA revision activities, as well as BIS implementation efforts, it may determine that some activities should be delayed, become part of the overall BIS implementation effort, or be undertaken sooner then suggested in this report.

6.1 BACKGROUND

The redesign methodology is based on the analysis conducted for the BIS project and took into account the support that will be required, and the evolution of the ERP, GAAP, and the state's fiscal needs. As highlighted in *Section 5 – Key Issues/Impacts* of this document, it is difficult to analyze potential changes to the current classification structures without acknowledging the impact a specific enterprise solution will have on those structures. Thus, our analysis reflects several system factors and business assumptions.

As discussed in *Section 5 – Key Issues/Impacts* of this document, there are a few ERP **system factors** we recognized when formulating strategies and identifying issues:

- COTS Software Packages: It's generally recommended to implement the standard, "off-the-shelf" version of the software and minimize (or eliminate) customization.

- Best Practices Design: It's generally recommended to adopt the solution's business process approach instead of modifying or customizing the software to support a unique, site-specific approach.
- ERP Business Suites: Although modular, ERP systems are generally designed to work together as a suite of tightly integrated components that reflect business processes from the end user perspective.

Based on our ERP research, department interviews and vendor educational workshops conducted during the chart of accounts analysis, the following **assumptions** were used in developing the revision strategy:

- ***Vision/Roadmap Development***. Based on the lessons learned by other entities implementing ERP solutions, the state will need to develop a clear vision of the overall ERP installation, and an accompanying roadmap that defines the system evolution over time. This roadmap will need to address business processes, users (i.e., departments) and timeframes in a holistic and cohesive manner, and correlate with the state's implementation and operational goals and objectives.
- ***Business Process Modeling***. With the business process focus of ERP solutions, the state should document current statewide and participating department business processes (i.e., "as-is" business processes) to an extent that will sufficiently support the transition to the ERP. The business process modeling should reflect the understanding that existing business processes and discrete activities will need to be reengineered to maximize the value of the ERP.
- ***Governance Approach and Execution***. The administration of the state's COA and the UCM should continue through a panel of subject matter experts from Finance and the SCO.
- ***Center of Excellence/Support Re-Organization***. Another lesson learned is the change that ERP design, implementation and operation will have on the current state support and maintenance organizations. In short, there will be more to do and greater responsibilities since during implementation both legacy and new systems will be in production until full transition to BIS. The current support and maintenance organization will take on additional responsibilities and require additional resources before, during and after the ERP implementation.

  The phrase "Center of Excellence" reflects the greater scope of responsibility, especially for providing guidance, recommendations and feedback to departments during ERP rollout, as business processes change and when new ERP functionality becomes available. This concept is discussed in greater detail in Section 6.4.

6.2 Strategic Drivers

The deliverable *D4 – Chart of Accounts Summary Report*, identified three Strategic Drivers as critical to the chart of accounts redesign efforts:

- UCM Preservation – The current UCM should be preserved as much as possible.
- ERP Classification Structure Evolution – The ERP product selected, modules deployed and business processes implemented will drive chart evolution.

- Centralized Administration – The administration, support and governance of the chart of accounts will need to be a centralized function.

When these strategic drivers were evaluated against the issues highlighted in *Section 5 – Key Issues/Impacts* of this document, a series of action items and work activities were identified and have been incorporated into the in *Section 6.2 – Recommended Redesign Strategies*.

6.3 BENEFITS

As the state has recognized with the approval of the BIS project, the benefits to the state related to the eventual implementation of BIS are considerable. The need for timely, accurate, and reliable financial information is essential. The state uses this information to obtain bond ratings which impact the interest rate paid for borrowing as well as providing information to the legislature for decision making. Improvements in the timing and efficiency of providing this information can improve overall state operations. Rather than spend time gathering, sorting, and presenting financial information, time can be spent on more valuable analysis of reliable information.

By undertaking the recommended COA revision activities detailed in this report, the state begins the hard work related to BIS implementation and creates the momentum for the project related to change management, stakeholder buy-in and end user readiness. Early implementation efforts allow departments to better understand the effort necessary for compliance and to better plan for those efforts.

- Reduced Implementation Effort – Shifting initial planning, analysis and assessment to earlier in the overall ERP transition will likely reduce downstream implementation efforts.
- Improved Business Process Alignment – By understanding the selected ERP solution's configuration options, parameter settings and overall design, the state will be able to achieve a tighter alignment of ERP-based business processes to state needs and requirements.
- Better ERP Leverage – Developing knowledge and expertise with the selected ERP solution's features and functionality will allow management and staff to better leverage the system's capabilities and minimize constraints.
- Streamlined Operations – Configuring the ERP to match changed state and department processes, integrating and interfacing sub-systems and responding to user requests will streamline operations and minimize "downtime."
- Self-Reliance – Building the in-house skills and knowledge necessary during the on-going ERP rollout will increase the likelihood that "lessons learned" are leveraged and expanded upon.

In addition, the state can further benefit by establishing COA policies for departmental systems *as soon as practicable after software selection* – decisions that should facilitate lower external project costs and other impacts.

6.4 CRITICAL SUCCESS FACTORS

The following critical success factors are important for the state to keep in mind as it considers, and implements, the redesign strategies and activities recommended in this report.

- Foster an organizational climate that supports collaboration – the implementation of an ERP system affords the state many benefits derived from an integrated solution that meets both departmental and statewide needs. Suggested revisions to the COA will enhance budget development, administration and statewide financial reporting activities; however, the state must continue to encourage collaboration as a basic tenet of the BIS project. This will encourage active participation by departments and help to achieve a balance between coordination and control.
- Ensure the governance structure in place for the BIS project focuses on (1) issues and actions that have statewide significance and (2) the establishment of policy direction.
- Plan for the increased staffing necessary to implement the system at both a statewide and departmental level. With the additional responsibilities and workload associated with deploying a new system, staffing levels will inevitably need to increase.
- Recognize the importance of training – the learning curve for the transition to an ERP solution and a revised chart of accounts will be significant. The current training schedule for CALSTARS, the State Fund Accounting Class and other relevant courses should be enhanced to ensure staff have the training available now that will make transition to any new system more efficient. This includes building on basic accounting knowledge, business process skills and legislative/regulatory requirements. Additionally, this helps to address knowledge gap issues and bolsters the skills and knowledge of new state staff.
- Communication between accounting and budget offices within most state departments – opening this channel will facilitate the implementation of BIS. The ERP solution will provide the capability to better integrate budget and accounting information; however if the staff within the units do not understand what the information is and how it can be used to improve their department's overall performance it cannot be used to its maximum potential.
- Development of a strong Central Administration that can meet the needs of the departments and retain the integrity of the ERP system is essential to a successful transition. This will be the nerve center of the implementation, transition, training, and operation.
- Establishing an initial ERP knowledge base by leveraging management and staff from departments already experienced with ERP implementations. Staff that have been through implementations are familiar with the implementation activities, ERP "gotchas" and level of effort (not to mention determination) required to successfully deploy an enterprise-wide system.

6.5 CONSIDERATIONS / RISK FACTORS

There are a number of risk factors and points that were considered when assessing the COA revision strategy and its underlying issues:

- Failing to Establish Clear Goals and Objectives – Without a clear vision and roadmap aligned to overall business objectives, the transition to a new solution will not necessarily be considered successful.
- Focusing on Systems, Not Business Processes – Due to the nature of ERP solutions, the focus needs to be on business processes not individual systems.
- Resistance to ERP Design – The penalty for not leveraging ERP design and best practices can be severe, so thoughtful adoption and user buy-in is critical. This can result in poorly configured modules, unwieldy software customizations and significant unplanned costs.
- Withholding the "Best and Brightest" – The implementation and support team will need the skills and knowledge of both junior and senior staff. Staff in charge of configuration and system administration will need to develop sufficient understanding of the system relationships, capabilities and limitations prior to "go-live." The experience and collective wisdom of experienced staff will provide important insights into why a particular configuration may (or may not) work for a department.
- Lack of Adequate User Support – Users will need support as early as the planning phase of the implementation. Knowing what the configuration trade-offs are and understanding what choices exist with the ERP is important – without this information the potential for making "bad" decisions increases. In addition, initial planning, assessment and change activities can begin *before* ERP selection. For example, implementing the recommended COA revisions would demonstrate commitment to end-users. This would provide enhancements now that would allow the departments to meet their individual needs within the structure of the UCM. In some cases, UCM updates can be made today through existing Finance FSCU, CALSTARS and other relevant units.
- Failure to Build a Knowledge Base – Due to the breadth and complexity of ERP solutions, there is an extended learning curve that will impact how well the final configuration will satisfy business requirements.

6.6 RECOMMENDED COA REDESIGN STRATEGIES

The following section presents recommended redesign strategies and key activities to address 22 issues/impacts discussed in Section 5.2 – Impact by Business Process. A letter/number key is used to classify the issues/impacts (e.g., “A1” represents the issue of meeting Statewide vs. Departmental Needs while mitigating COA weaknesses) as shown in Table 3 - Recommended COA Revision Strategies. Table 3 also shows how each of the issues/impacts aligns with one of three strategic drivers (UCM Preservation, ERP Classification Structure Evolution, and Centralized Administration) and one of three business processes (Budget Development, Budget Administration and Statewide Financial Reporting).

	Budget Development	Budget Administration	Statewide Financial Reporting
UCM Preservation			
A: Mitigating Weaknesses/Gaps	**A1:** Statewide vs. Departmental Needs	**A2:** System Usage **A3:** Multi-Period Activity	**A4:** SCO ARMS Databases
B: ERP Functions/Tools	**B1:** Forecasting/ Analysis	**B2:** Operational Reporting	**B3:** Budgetary/Legal and CAFR Reporting
C: Statewide Best Practices	**C1:** Budget Formulation	**C2:** Business Process Integration	**C3:** Statewide Financial Reporting Development
ERP Classification Structure Evolution			
D: ERP Modules	**D1:** Project and Grant Classification	**D2:** Classification Structure Usage	**D3:** Enterprise Data Model
E: Statewide Processes	**E1:** Project and Grant Accounting	**E2:** Appropriation and Allocation Control	**E3:** Budgetary/Legal and GAAP Basis
F: Classification Structure Updates	**F1:** Legislation and Statutory Changes	**F2:** Spending Authorization	**F3:** Reporting Requirements Changes
Centralized Administration			
G: Greater Complexity	**G1:** Configuration Management		
H: Broader Scope	**H1:** Business Analyst vs. General Support		
I: Training Magnitude	**I1:** Communication		

Table 3 - Recommended COA Revision Strategies

Each individual issue/impact is examined in Section 6.2.1 through 6.2.3 for detailed issues to be addressed and action items to be taken. The benefits of executing each strategy are highlighted, as well as critical success factors and risk factors/other considerations. The specific actions to be taken to address each issue are compiled into a transition plan and summarized in Table 4: Transition Plan – Action Item Schedule (see pp. 62-66).

6.6.1 UCM Preservation Strategies

UCM PRESERVATION	
A1 STATEWIDE VS. DEPARTMENTAL NEEDS	
Description	
The needs and requirements at the statewide and department level differ in terms of focus, process and detail. • **Strategic Driver:** UCM Preservation • **Issue/Impact:** Mitigating Weaknesses/Gaps	
Issues to be addressed	**Actions to be taken**
Understanding and addressing the impact transitioning department-specific budget development processes to statewide development processes will have on budgeting is crucial.	• A1.1.1 Document high-level departmental financial management processes. • A1.1.2 Identify common high-level process steps. • A1.1.3 Construct high-level, conceptual “to-be” department-level processes as a means to understand change impact.
Leveraging the COTS, “best practices” budget development design of the ERP packages, while tailoring or customizing the package to meet state requirements and needs is essential.	• A1.2.1 Review high-level statewide and departmental business processes against ERP off-the-shelf, “best practices” design. • A1.2.2 Identify and prioritize potential process changes to leverage ERP ”best practices”.
Benefits	
• Reduced Implementation Effort • Improved Business Process Alignment • Better ERP Leverage	
Critical Success Factors	**Risk Factors/Considerations**
• Governance • Collaboration • Communication • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Withholding the “Best and Brightest”

UCM PRESERVATION

A2 SYSTEMS USAGE

Description

Multiple systems are used to support business processes, such as budget administration and control.

- **Strategic Driver:** UCM Preservation
- **Issue/Impact:** Mitigating Weaknesses/Gaps

Issues to be addressed	Actions to be taken
Understanding how leveraging ERP capabilities can support statewide budget control for different groups of users while meeting varying monitoring requirements is a key issue.	• A2.1.1 Develop an understanding of ERP budget control capabilities (and limitations) for different users through documentation review, vendor training and simulation.
Determining the impact on existing department-level business processes when a new system is introduced is critical.	• A2.2.1 Establish review criteria and protocols for evaluating business process impact and integrating or interfacing data to/from ERP and/or departmental subsystems.

Benefits

- Improved Business Process Alignment
- Better ERP Leverage
- Streamlined Operations

Critical Success Factors	Risk Factors/Considerations
• Collaboration • Training • ERP Knowledge Base	• Resistance to ERP Design • Withholding the “Best and Brightest” • Lack of Adequate User Support • Failure to Build a Knowledge Base

UCM PRESERVATION

A3 MULTI-PERIOD ACTIVITY

Description

Tracking activity over multiple periods is problematic.

- **Strategic Driver:** UCM Preservation
- **Issue/Impact:** Mitigating Weaknesses/Gaps

Issues to be addressed	Actions to be taken
How an ERP might offer alternative approaches to meeting this need has the potential to add some value to tracking and monitoring multi-year appropriations	• A3.1.1 Identify current multi-year budget tracking and control requirements. • A3.1.2 Develop an understanding of the ERP appropriation and budget control approach to multi-year activity. • A3.1.3 Assess how multi-year budget requirements fit to ERP approach.
The design of the ERP for handling multi-year activity, such as project or grant tracking, will be important to understand.	• A3.2.1 Document current high-level business processes requiring multi-year activity tracking and control. • A3.2.2 Identify and review ERP business processes for multi-year tracking capabilities that align to current processes.
The ERP will also need to handle the issues created by the state and federal fiscal years covering different periods	• A3.3.1 Develop an understanding of the ERP options for tracking multiple time periods simultaneously (i.e., state vs. federal fiscal years).

Benefits

- Reduced Implementation Effort
- Improved Business Process Alignment
- Better ERP Leverage

Critical Success Factors	Risk Factors/Considerations
• Collaboration • Governance • Communication • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Withholding the “Best and Brightest”

UCM PRESERVATION

A4 SCO ARMS DATABASES

Description

Statewide financial reporting requires aggregating, compiling and processing data from many sources in dedicated systems/databases.

- **Strategic Driver:** UCM Preservation
- **Issue/Impact:** Mitigating Weaknesses/Gaps

Issues to be addressed	Actions to be taken
Understanding what approach is used by the ERP system for statewide financial reporting is important in determining the best approach to preparing and publishing the annual financial reports.	• A4.1.1 Document and review the ERP data storage approach, recommended reporting tools, and off-the-shelf business processes for statewide financial reporting.

Benefits

- Improved Business Process Alignment
- Better ERP Leverage
- Streamlined Operations

Critical Success Factors	• Risk Factors/Considerations
• Training • Central Administration • ERP Knowledge Base	• Focusing on Systems, Not Process • Resistance to ERP Design

UCM PRESERVATION

B1 FORECASTING/ANALYSIS

Description

Budget development forecasting and analysis will require historical data.

- **Strategic Driver:** UCM Preservation
- **Issue/Impact:** ERP Functions/Tools

Issues to be addressed	Actions to be taken
Cleansing, converting and presenting converted, historical data will be important for forecasting and analysis.	• B1.1.1 Establish data quality standards prior to data conversion. • B1.1.2 Identify data sources to be considered for conversion. • B1.1.3 Evaluate data source data quality against standards.

UCM PRESERVATION	
B1	**FORECASTING/ANALYSIS**
Recognizing the limitations around converting department-level data and planning for how best utilize that data in the ERP is a consideration.	• B1.2.1 Establish review criteria and protocols for evaluating ERP and departmental business processes. • B1.2.2 Identify candidate departmental business processes (and data) for conversion to the ERP.
Benefits	
• Reduced Implementation Effort • Better ERP Leverage	
Critical Success Factors	**Risk Factors/Considerations**
• Collaboration • Governance • Training • Communication	• Resistance to ERP Design • Failure to Build Knowledge Base

UCM PRESERVATION	
B2	**OPERATIONAL REPORTING**
Description	
Standard and ad-hoc reporting, both at a statewide and departmental level, will change with new reporting tools and data structures. • **Strategic Driver:** UCM Preservation • **Issue/Impact:** ERP Functions/Tools	
Issues to be addressed	**Actions to be taken**
With this increased capability users will need to have a greater degree of knowledge of the classification structures and their relationships.	• B2.1.1 Develop an understanding of ERP classification structure configuration options (and constraints) through documentation review, vendor training and simulation.
Benefits	
• Improved Business Process Alignment • Better ERP Leverage	
Critical Success Factors	**Risk Factors/Considerations**

UCM PRESERVATION	
B2 OPERATIONAL REPORTING	
• Governance • Training • Central Administration • ERP Knowledge Base	• Withholding the "Best and Brightest" • Lack of Adequate User Support • Failure to Build a Knowledge Base

UCM PRESERVATION

B3 BUDGETARY/LEGAL AND CAFR REPORTING

Description

Financial report development and production will change.

- **Strategic Driver:** UCM Preservation
- **Issue/Impact:** ERP Functions/Tools

Issues to be addressed	Actions to be taken
Understanding tool capabilities and applying them to statewide financial reporting requirements may impact how the classification elements are structured.	• B3.1.1 Document ERP reporting tool options against business requirements. • B3.1.2 Review ERP capabilities (and limitations) of manipulating data structures and elements.

Benefits

- Improved Business Process Alignment
- Better ERP Leverage

Critical Success Factors	Risk Factors/Considerations
• Central Administration • ERP Knowledge Base	• Lack of Adequate User Support • Failure to Build a Knowledge Base

UCM PRESERVATION

C1 BUDGET FORMULATION

Description

The methods and tools used during the budget development process will be impacted.

- **Strategic Driver:** UCM Preservation
- **Issue/Impact:** Statewide Best Practices

Issues to be addressed	Actions to be taken
Understanding the impact this change will have on the budget development and formulation, especially at the department level, is critical.	• C1.1.1 Document the high-level budget development process. • C1.1.2 Identify and grade high-level budget development activities for impact, with a focus on critical tasks. • C1.1.3 Document options and alternatives to meeting high-level budget development requirements associated with critical activities.

UCM PRESERVATION	
C1	**BUDGET FORMULATION**
Understanding how these “off-system” formulation tools are used and how they integrate with the ERP system will be an important consideration.	• C1.2.1 Review departmental budget formulation tools. • C1.2.2 Document ERP budget development capabilities (and limitations). • C1.2.3 Identify potential replacement, integration or interface strategies to meet budget formulation needs.
Benefits	
• Improved Business Process Alignment • Better ERP Leverage • Streamlined Operations	
Critical Success Factors	**Risk Factors/Considerations**
• Collaboration • Governance • Training • Central Administration • ERP Knowledge Base	• Focus on Systems, Not Business Processes • Resistance to ERP Design • Withholding the “Best and Brightest”

UCM PRESERVATION	
C2	**BUSINESS PROCESS INTEGRATION**
Description	
The “footprint” of the ERP and integration with other enterprise systems will impact budget control, financial management and other statewide processes. • **Strategic Driver:** UCM Preservation • **Issue/Impact:** Statewide Best Practices	
Issues to be addressed	**Actions to be taken**
Understanding the options for and limitations around integrating other solutions with the ERP will impact how budget control is exercised.	• C2.1.1 Understand how the ERP vendor recommends evaluating business process impact and integrating or interfacing data to/from ERP and/or departmental subsystems.
Benefits	
• Improved Business Process Alignment • Better ERP Leverage • Streamlined Operations	
Critical Success Factors	**Risk Factors/Considerations**

UCM PRESERVATION	
C2	**BUSINESS PROCESS INTEGRATION**
• Training • Central Administration • ERP Knowledge Base	• Focus on Systems, Not Business Processes • Resistance to ERP Design • Withholding the "Best and Brightest" • Lack of Adequate User Support

UCM PRESERVATION	
C3	**STATEWIDE FINANCIAL REPORTING DEVELOPMENT**
Description	
Each ERP will have an approach to producing financial reports. • **Strategic Driver:** UCM Preservation • **Issue/Impact:** Statewide Best Practices	
Issues to be addressed	**Actions to be taken**
Awareness of how the ERP is designed for statewide financial reporting and options available to support differing reporting requirements is important.	• C3.1.1 Develop an understanding of the ERP vendor's approach to statewide financial reporting.
Benefits	
• Streamlined Operations	
Critical Success Factors	**Risk Factors/Considerations**
• Central Administration • ERP Knowledge Base	• Resistance to ERP Design • Lack of Adequate User Support

6.6.2 ERP Classification Structure Evolution Strategies

ERP CLASSIFICATION STRUCTURE EVOLUTION	
D1	**PROJECT AND GRANT CLASSIFICATION**
Description	
New system functionality will require new data elements and structures. • **Strategic Driver:** ERP Classification Structure Evolution • **Issue/Impact:** ERP Modules	
Issues to be addressed	**Action Description**
The data structures and elements used by the ERP functional modules will impact the current data structures used by departments today for classifying and tracking project and/or grant transactions.	• D1.1.1 Identify ERP project and/or grants management classification elements. • D1.1.2 Review fit to future departmental requirements. • D1.1.3 Document classification options and potential business process configuration to support requirements.
With departments handling these elements uniquely today, there will clearly be an impact during the transition to an ERP-supported set of business processes.	• D1.2.1 Identify departmental project and/or grants management classification elements. • D1.2.2 Identify common elements between departments. • D1.2.3 Review fit to ERP system capabilities and project/grants management classification elements.
Benefits	
• Improved Business Process Alignment • Better ERP Leverage • Streamlined Operations	
Critical Success Factors	**Risk Factors/Considerations**
• Collaboration • Training • Central Administration • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Withholding the “Best and Brightest” • Lack of Adequate User Support

ERP CLASSIFICATION STRUCTURE EVOLUTION

D2 CLASSIFICATION STRUCTURE USAGE

Description

New system modules and the approach to system integration will influence classification structure usage.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact:** ERP Modules

Issues to be addressed	Action Description
How the ERP system captures, classifies and tracks different types of financial and non-financial data will influence classification evolution.	• D2.1.1 Develop an understanding of ERP data entry and processing, as well as configuration options (and constraints), through documentation review, vendor training and simulation.

Benefits

- Improved Business Process Alignment
- Better ERP Leverage
- Streamlined Operations

Critical Success Factors	Risk Factors/Considerations
• Central Administration	• Withholding the “Best and Brightest” • Lack of Adequate User Support • Failure to Build a Knowledge Base

ERP CLASSIFICATION STRUCTURE EVOLUTION

D3 ENTERPRISE DATA MODEL

Description

The enterprise data model will impact and influence how financial reports are developed.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact**: ERP Modules

Issues to be addressed	Action Description
Understanding what impact additional modules may have on the classification elements and how that data is made available for reporting is a consideration.	• D3.1.1 Develop an understanding how new ERP modules supplement and/or extend business processes. • D3.1.2 Identify new classification elements and data requirements. • D3.1.3 Document the impact on statewide financial reporting processes.

Benefits

ERP Classification Structure Evolution

D3 Enterprise Data Model

- Better ERP Leverage
- Streamlined Operations

Critical Success Factors	Risk Factors/Considerations
• Collaboration • Governance • Central Administration • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Withholding the "Best and Brightest" • Lack of Adequate User Support • Failure to Build a Knowledge Base

ERP Classification Structure Evolution

E1 Project and Grant Accounting

Description

Changes to business processes, such as project and grant accounting capabilities, will impact other business processes including budget development.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact:** Statewide Processes

Issues to be addressed	Action Description
An understanding of the trade-offs and decision factors of new project and grant capabilities will be essential to determining the best implementation approach for the state.	• E1.1.1 Document high-level project and/or grants management business processes across the state. • E1.1.2 Identify and grade project and/or grants management activities, with a focus on critical tasks. • E1.1.3 Review options and alternatives to meeting high-level business process requirements associated with critical project and/or grants management activities.
Understanding how these supplemental systems are used and how they integrate with the ERP system will be an important consideration.	• E1.2.1 Review departmental project and/or grants management solutions. • E1.2.2 Review ERP project and/or grants management capabilities (and limitations). • E1.2.3 Identify potential replacement, integration or interface strategies to meet project/grant needs.

ERP CLASSIFICATION STRUCTURE EVOLUTION	
E1 PROJECT AND GRANT ACCOUNTING	
Benefits	
• Improved Business Process Alignment • Better ERP Leverage • Streamlined Operations	
Critical Success Factors	**Risk Factors/Considerations**
• Governance • Collaboration • Training • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Withholding the "Best and Brightest" • Lack of Adequate User Support • Failure to Build a Knowledge Base

ERP CLASSIFICATION STRUCTURE EVOLUTION	
E2 APPROPRIATION AND ALLOCATION CONTROL	
Description	
New system capabilities (and limitations) will impact budget control options. • **Strategic Driver:** ERP Classification Structure Evolution • **Issue/Impact:** Statewide Processes	
Issues to be addressed	**Action Description**
The approach an ERP solution applies to multiple levels of budget control may impact the classification structure.	• E2.1.1 Identify budgetary control requirements at both a state and departmental level. • E2.1.2 Understand how the ERP vendor recommends establishing multiple levels of budgetary control. • E2.1.3 Review options for satisfying state budgetary control needs.
Benefits	
• Reduced Implementation Effort • Improved Business Process Alignment • Better ERP Leverage	
Critical Success Factors	**Risk Factors/Considerations**
• Collaboration • Governance • Training • Central Administration • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Withholding the "Best and Brightest" • Lack of Adequate User Support

ERP Classification Structure Evolution

E3 Budgetary/Legal and GAAP Basis

Description

The new system's capabilities to capture, manage and process data will influence statewide financial reporting.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact:** Statewide Processes

Issues to be addressed	Action Description
This data source reduction and new reporting approach will change how financial data is compiled and reported on to satisfy different reporting requirements	• E3.1.1 Develop an understanding of how the ERP maintains multiple accounting bases. • E3.1.2 Document ERP capabilities to statewide and departmental reporting requirements. • E3.1.3 Review impact to statewide financial reporting processes.

Benefits

- Reduced Implementation Effort
- Improved Business Process Alignment
- Better ERP Leverage

Critical Success Factors	Risk Factors/Considerations
• Governance • Training • Central Administration • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Lack of Adequate User Support

ERP CLASSIFICATION STRUCTURE EVOLUTION

F1 LEGISLATIVE AND STATUTORY CHANGES

Description

The system will support configuration and parameter adjustments to reflect legislative and statutory changes.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact:** Classification Structure Updates

Issues to be addressed	Action Description
The impact classification structure additions, updates and deletions have on the ERP system business processes should be considered when making changes.	• F1.1.1 Establish review criteria and protocols for evaluating classification structure changes. • F1.1.2 Assess impact of applying review criteria and protocols to ERP-supported business processes. • F1.1.3 Identify classification structure change magnitude and prioritize changes.
Providing adequate department-level tracking, while minimizing the complexity of supporting statewide monitoring is essential.	• F1.2.1 Document departmental budget control and management tracking requirements. • F1.2.2 Identify common control structures and elements. • F1.2.3 Review potential changes to simplify department ERP usage..

Benefits

- Reduced Implementation Effort
- Improved Business Process Alignment
- Better ERP Leverage
- Streamlined Operations

Critical Success Factors	Risk Factors/Considerations
• Collaboration • Governance • Central Administration	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Lack of Adequate User Support

ERP Classification Structure Evolution

F2 Spending Authorization

Description

The necessity to tie program budgets and spending plans with legislative policy decisions and Budget Act appropriations will remain.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact:** Classification Structure Updates

Issues to be addressed	Action Description
An ERP may utilize a similar or different coding element to provide the same appropriation tracking functionality.	• F2.1.1 Document appropriation tracking requirements. • F2.1.2 Document ERP control approach. • F2.1.3 Review fit to state needs.

Benefits

- Reduced Implementation Effort
- Improved Business Process Alignment
- Better ERP Leverage

Critical Success Factors	Risk Factors/Considerations
• Governance • Central Administration • ERP Knowledge Base	• Focusing on Systems, Not Business Processes • Resistance to ERP Design • Withholding the “Best and Brightest”

ERP Classification Structure Evolution

F3 Reporting Requirements Changes

Description

The need to reflect new reporting requirements in system business logic and parameter settings will remain.

- **Strategic Driver:** ERP Classification Structure Evolution
- **Issue/Impact:** Classification Structure Updates

Issues to be addressed	Action Description

ERP CLASSIFICATION STRUCTURE EVOLUTION	
F3	**REPORTING REQUIREMENTS CHANGES**
As the data required by internal and external decision makers changes, its likely reporting requirements will change as well.	• F3.1.1 Establish review criteria and protocols for evaluating changing reporting requirements. • F3.1.2 Assess chart of accounts analysis results for immediate/near-term changes (i.e., object/receipt code updates, definition updates and so on) with or without ERP impact. • F3.1.3 Implement immediate/near-term updates without ERP impact.
Benefits	
• Reduced Implementation Effort	
Critical Success Factors	**Risk Factors/Considerations**
• Governance • Collaboration • Central Administration	• Withholding the “Best and Brightest” • Lack of Adequate User Support

6.6.3 Centralized Administration Strategies

CENTRALIZED ADMINISTRATION	
G1	**CONFIGURATION MANAGEMENT**
Description	
The new system’s design, configuration and operation will differ from current systems. • **Strategic Driver:** Centralized Administration • **Issue/Impact:** Greater Complexity	
Issues to be addressed	**Action Description**
Understanding how ERP configuration will support or hinder users and apply to statewide and departmental business processes is an issue.	• G1.1.1 Develop an understanding of ERP configuration options and parameters. • G1.1.2 Review alternatives to determine pros/cons and strengths/weaknesses. • G1.1.3 Establish recommended configurations.
Being aware of how configuration changes may or may not impact a process and the resulting output will also be important.	• G1.2.1 Establish testing protocols and procedures for business process modifications. • G1.2.2 Translate business process modifications to configuration/parameter settings. • G1.2.3 Test and evaluate proposed changes.

CENTRALIZED ADMINISTRATION	
G1 CONFIGURATION MANAGEMENT	
Benefits	
• Reduced Implementation Effort • Improved Business Process Alignment • Better ERP Leverage • Streamlined Operations • Self-Reliance	
Critical Success Factors	**Risk Factors/Considerations**
• Collaboration • Staffing • Training • Central Administration • ERP Knowledge Base	• Resistance to ERP Design • Failure to Build Knowledge Base • Withholding the “Best and Brightest”

CENTRALIZED ADMINISTRATION

H1 BUSINESS ANALYST VS. GENERAL SUPPORT

Description

The roles and responsibilities of the support organization will need to adapt to the nature of the new system.

- **Strategic Driver:** Centralized Administration
- **Issue/Impact:** Broader Scope

Issues to be addressed	Action Description
The type and number of support resources will increase to adequately support the ERP.	• H1.1.1 Identify business functions and roles required to operate, support and maintain ERP based on scope. • H1.1.2 Document number and experience level of personnel based on roadmap.
Evaluating how those new capabilities are put to use; how they impact current business processes and how to introduce them to users (i.e., training) is important.	• H1.2.1 Establish testing protocols and procedures for new capabilities. • H1.2.2 Translate new capabilities to configuration/parameter settings. • H1.2.3 Test and evaluate proposed changes.

Benefits

- Goal and Objective Achievement
- Improved Business Process Alignment
- Streamlined Operations

Critical Success Factors	Risk Factors/Considerations
• Staffing • Training • Central Administration • ERP Knowledge Base	• Failing to Establish Clear Goals and Objectives • Focusing on Systems, Not Business Processes • Lack of Adequate User Support • Failure to Build a Knowledge Base

CENTRALIZED ADMINISTRATION

I1 COMMUNICATION

Description

The breadth and depth of the new system will touch a greater number and greater variety of system users.

- **Strategic Driver:** Centralized Administration
- **Issue/Impact:** Training Magnitude

Issues to be addressed	Action Description
The impact of traditional and non-traditional communication methods will have in supporting ERP users must be considered and effectively addressed before, during and after the implementation.	• I1.1.1 Document current communication methods and protocols. • I1.1.2 Identify new and alternative communication approaches. • I1.1.3 Review potential additions and changes to current communication methods and protocols.
Extending communication capabilities to provide both support-to-user and user-to-user vehicles is essential.	• I1.2.1 Document current and potential user base and system roles. • I1.2.2 Identify new and alternative responsibilities and roles. • I1.2.3 Review fit of communication methods and protocols against user base and user roles.

Benefits

- Goal and Objective Achievement
- Improved Business Process Alignment
- Streamlined Operations

Critical Success Factors	Risk Factors/Considerations
• Collaboration • Central Administration	• Failing to Establish Clear Goals and Objectives • Focusing on Systems, Not Business Processes • Lack of Adequate User Support • Failure to Build a Knowledge Base

6.7 TRANSITION PLAN

This section presents a suggested sequence for the COA revision activities discussed in the previous section. Table 4: Transition Plan – Action Item Schedule shows the recommended sequence and timing of each COA action item aligned against the following three broad time frames:

- **Pre-Selection** – those activities that the state can undertake prior to the selection of a solution for BIS. These are activities that are not dependent on the particular ERP solution and would benefit the state if undertaken in the near term (beginning in the fall of 2006)
- **During Selection/Prior to Implementation** – these are activities that should be undertaken once the state has identified the ERP solution for BIS, but has not formally begun the implementation effort. These are activities that are dependent on the actual ERP solution selected by the state.
- **Implementation** – these are activities that should be undertaken once the formal BIS implementation activities have been launched. It should be noted that many of these recommended activities may be adjusted based on the specific COA implementation methodologies of the selected system integrator and product vendors.

Table 4: Transition Plan – Action Item Schedule

Strategic Driver	Pre-Selection	During Selection/Pre-Implementation	Implementation
UCM Preservation	A1.1.1 Document high-level departmental financial management processes. A1.1.2 Identify common high-level process steps. A1.1.3 Construct high-level, conceptual “to-be” department-level processes as a means to understand change impact. A2.2.1 Establish review criteria and protocols for evaluating business process impact and integrating or interfacing data to/from ERP and/or departmental subsystems. A3.1.1 Identify current multi-year budget tracking and control requirements. A3.2.1 Document current high-level business processes requiring multi-year activity tracking and control B1.1.1 Establish data quality standards prior to data conversion. B1.1.2 Identify data sources to be considered for conversion.	A2.1.1 Develop an understanding of ERP budget control capabilities (and limitations) for different users through documentation review, vendor training and simulation. A3.1.2 Develop an understanding of the ERP appropriation and budget control approach to multi-year activity. A3.1.3 Assess how multi-year budget requirements fit to ERP approach. A3.3.1 Develop an understanding of the ERP options for tracking multiple time periods simultaneously (i.e., state vs. federal fiscal years). B2.1.1 Develop an understanding of ERP classification structure configuration options (and constraints) through documentation review, vendor training and simulation. B3.1.1 Document ERP reporting tool options against business requirements. C1.1.3 Document options and alternatives to meeting high-level	A1.2.1 Review high-level statewide and departmental business processes against ERP off-the-shelf, “best practices” design. A1.2.2 Identify and prioritize potential process changes to leverage ERP ”best practices”. A3.2.2 Identify and review corresponding ERP business processes for multi-year tracking capabilities that align to current processes. A4.1.1 Document and review the ERP data storage approach, recommended reporting tools, and off-the-shelf business processes for statewide financial reporting. B3.1.2 Review ERP capabilities (and limitations) of manipulating data structures and elements.

Strategic Driver	Pre-Selection	During Selection/Pre-Implementation	Implementation
	B1.1.3 Evaluate data source data quality against standards. B1.2.1 Establish review criteria and protocols for evaluating ERP and departmental business processes. B1.2.2 Identify candidate departmental business processes (and data) for conversion to the ERP. C1.1.1 Document the high-level budget development process. C1.1.2 Identify and grade high-level budget development activities, with a focus on critical tasks. C1.2.1 Review departmental budget formulation tools.	budget development requirements associated with critical activities. C1.2.2 Document ERP budget development capabilities (and limitations). C1.2.3 Identify potential replacement, integration or interface strategies to meet budget formulation needs. C2.1.1 Understand how the ERP vendor recommends evaluating business process impact and integrating or interfacing data to/from ERP and/or departmental subsystems. C3.1.1 Develop an understanding of the ERP vendor's approach to statewide financial reporting.	
ERP Classification Structure Evolution	D1.1.1 Identify ERP project and/or grants management classification elements. D1.2.1 Identify departmental project and/or grants management classification elements. D1.2.2 Identify common elements	D1.1.2 Review fit to future departmental requirements. D1.2.3 Review fit to ERP system capabilities and project/grants management classification elements. D2.1.1 Develop an understanding	D1.1.3 Document classification options and potential business process configuration to support requirements. E1.2.3 Identify potential replacement, integration or interface strategies to meet project/grant needs.

Strategic Driver	Pre-Selection	During Selection/Pre-Implementation	Implementation
	between departments. D3.1.1 Develop an understanding how new ERP modules supplement and/or extend business processes. D3.1.2 Identify new classification elements and data requirements. D3.1.3 Document the impact on statewide financial reporting processes. E1.1.1 Document high-level project and/or grants management business processes across the state. E1.1.2 Identify and grade project and/or grants management activities, with a focus on critical tasks. E1.2.1 Review departmental project and/or grants management solutions. E2.1.1 Identify budgetary control requirements at both a state and departmental level. F1.1.1 Establish review criteria and protocols for evaluating classification structure changes.	of ERP data entry and processing, as well as configuration options (and constraints), through documentation review, vendor training and simulation. E1.1.3 Review options and alternatives to meeting high-level business requirements associated with critical project and/or grants management activities. E1.2.2 Review ERP project and/or grants management capabilities (and limitations). E2.1.2 Understand how the ERP vendor recommends establishing multiple levels of budgetary control. E2.1.3 Review options for satisfying state budgetary control needs. E3.1.1 Develop an understanding of how the ERP maintains multiple accounting bases. E3.1.2 Document ERP capabilities to statewide and departmental reporting requirements. F1.1.2 Assess impact of applying review criteria and protocols to	E3.1.3 Review impact to statewide financial reporting processes. F2.1.3 Review fit to state needs.

Strategic Driver	Pre-Selection	During Selection/Pre-Implementation	Implementation
	F1.2.1 Document departmental budget control and management tracking requirements. F1.2.2 Identify common control structures and elements. F1.2.3 Review potential changes to simplify department ERP usage. F2.1.1 Document appropriation tracking requirements. F3.1.1 Establish review criteria and protocols for evaluating changing reporting requirements. F3.1.2 Assess chart of accounts analysis results for immediate/near-term changes (i.e., object/receipt code updates, definition updates and so on) with or without ERP impact. F3.1.3 Implement immediate/near-term updates without ERP impact.	ERP-supported business processes. F1.1.3 Identify classification structure change magnitude and prioritize changes. F2.1.2 Document ERP control approach.	
Centralized Administration	G1.2.1 Establish testing protocols and procedures for business process modifications. H1.1.1 Identify business functions and roles required to operate, support and maintain ERP based	G1.1.1 Develop an understanding of ERP configuration options and parameters. H1.1.2 Document number and experience level of personnel based on roadmap.	G1.1.2 Review alternatives to determine pros/cons and strengths/weaknesses. G1.1.3 Establish recommended configurations.

Strategic Driver	Pre-Selection	During Selection/Pre-Implementation	Implementation
	on scope. H1.2.1 Establish testing protocols and procedures for new capabilities. I1.1.1 Document current communication methods and protocols. I1.1.2 Identify new and alternative communication approaches. I1.1.3 Review potential additions and changes to current communication methods and protocols. I1.2.1 Document current and potential user base and system roles. I1.2.2 Identify new and alternative responsibilities and roles. I1.2.3 Review fit of communication methods and protocols against user base and user roles.		G1.2.2 Translate business process modifications to configuration/parameter settings. G1.2.3 Test and evaluate proposed changes. H1.2.2 Translate new capabilities to configuration/parameter settings. H1.2.3 Test and evaluate proposed changes.

6.8 CHANGE MANAGEMENT PLAN

For tangible benefits of a revised chart of accounts, and ultimately the BIS solution, to be fully achieved, impacted Control Agency staff and departmental budget, accounting, human resources and business services (procurement) staff across the state must understand what is changing and be ready, willing and able to adapt to new ways of budget and financial management processes using the revised COA, as well as the BIS solution. This requires careful planning and execution of activities to manage and deploy change envisioned in the activities recommended in this report, and well in advance of BIS "go-live".

Consequently, business process transition/organizational change management must be managed at every stage of the BIS project and must encompass not only the technical changes implied by revisions to the COA, but also statewide process changes and the accompanying impacts to state departments. Change management activities must focus on understanding how new processes and organizational change result from the implementation of the recommendations presented in this report. Change management involves:

- Plans to communicate the changes
- Sponsoring state staff who will assist in communicating the benefits of the changes
- Identifying risks associated with the changes
- Recognizing that new roles and procedures may need to be created to support new processes.

As part of the COA revision efforts (and as part of the overall BIS project), a change management program will need to be put in place by the BIS project governance bodies and the BIS Project Team, including the following:

1. Develop an ***organization readiness assessment*** to identify issues that may impede change and resistance points across the state. The launching of the COA Strategy Panel and the BIS workgroup provides an excellent foundation to further explore interventions and activities to address anticipated change.

   As part of the organizational readiness assessment, it will be important to evaluate change needs of state departments impacted by revisions to the COA:

   – Impacted staff and groups should be identified and segmented by business unit, function, level of impact and/or degree of change.
   – Stakeholders should be evaluated to determine how the groups and individuals behave and react toward change. The level of commitment and/or resistance of the key stakeholder groups should be determined.
   – Individuals should be identified who have the greatest influence on the stakeholder groups and who can speed acceptance of the change by each individual and/or group.

2. Based on the readiness assessment, the BIS Project should develop an ***organization transition guide*** to assist Finance and other key control agencies in determining the need to address any changes in roles required to support the new or revised business processes resulting from revising the COA. While there

will most likely be minimal impact to roles based on revisions to the COA, there will be significant changes with the implementation of BIS. The organization transition guide drafted to support the COA revision recommendations can be the foundation to plan for organization, role and job adjustments to support new business processes resulting from the implementation of BIS.

3. ***Deploy "Change Agents"***. With an understanding of readiness and an organization transition guide, deploying key change agents throughout the state is critical in increasing the speed and smoothness of adopting the recommended changes. It is largely through "Change Agents" that the interests and issues of the various impacted stakeholder groups can be directly addressed.

   As the BIS Project evaluates the recommended actions identified in this report, and during each subsequent phase of BIS, the BIS Project Team will need to complete the following:

   - Key change agents are identified who can act as role models for change and execute transition management and organization transition activities both during and after the implementation.
   - Activities are defined to prepare and gain active buy-in, commitment and involvement of the change agents.
   - Stakeholder interventions and transition management activities are planned and assigned to each change agent.
   - Feedback mechanisms are planned and assigned to allow the project team to proactively make adjustments to both the implementation plan and the transition management plan.

4. ***Mobilize the COA Workgroup***. A COA workgroup composed of state representatives has been actively participating in the COA analysis phase of the BIS project. The workgroup is composed of state staff with diverse knowledge, skill sets and backgrounds. It is important the BIS Project continue to use this workgroup to help implement many of the activities identified in this report. The BIS Project should consider formally acknowledging the workgroup participants as members of the BIS team by:

   - Setting expectations regarding time commitment requirements.
   - Seeking approval from department management for formal participation.
   - Setting expectations for transitioning into and exiting out of the project team.

5. As the BIS Project has recognized, an effective ***Communications Program*** is essential to the success of BIS. Project related information including milestones, benefits and impacts must be disseminated to targeted stakeholders. The BIS Project must formalize its activities related to a communications program that:

   - Identifies messages needed to provide clear and timely exchange of information.
   - Determines the media to use to bring specific information to state staff, as well as other interested parties.
   - Organizes media and messages into campaigns that correspond to project milestones and production releases, progressively building from awareness to acceptance.

– Builds feedback mechanisms for gaining continuous information about how the change efforts are perceived by the stakeholder groups.

6.9 Classification Structure Maintenance Framework

This section provides recommendations for a framework for the state to effectively maintain an evolving COA. The state can and should begin building out the framework prior to the selection and implementation of the COTS system, using existing groups, such as the UCM Committee, to effect changes. A pilot of the new framework could be executed to review classification structure recommendations made during this COA Analysis Phase of the BIS project. The framework should be adjusted as needed based on the results of the pilot, positioning the state more favorably as it nears the selection of the ERP system.

6.9.1 Basic Framework

The classification structure is dynamic in nature: the relationship between classification elements, the coding format, the use and purpose – all are characteristics that will change over time. Several factors will influence future changes to the classification structure, as shown in Figure 5: Classification Structure Maintenance Framework.

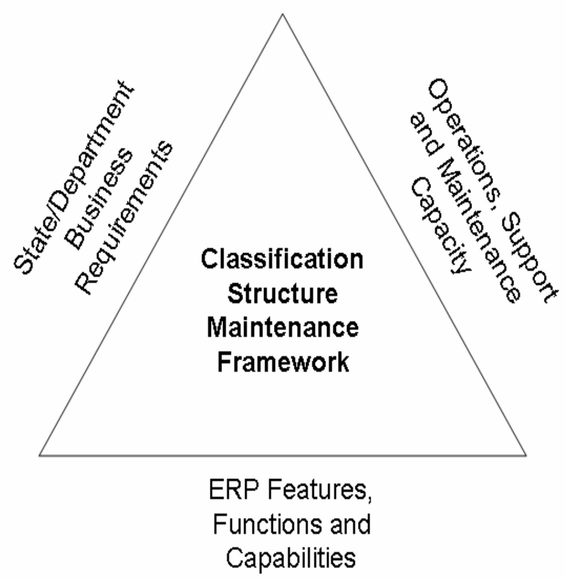

Figure 6: Classification Structure Maintenance Framework

- **State/Department Business Requirements**: There are a variety of influences on business requirements, such as changes in legislation, federal regulations, industry standards or what are considered best practices. These changes will necessitate changes in ERP-supported business process and the classification structure. The state should plan for these changes, assuming the business requirements of the state and departments will change periodically. And, at times, a change to the classification structure might be necessary to support the new or enhanced business process.
- **ERP Features, Functions, and Capabilities**: As ERP solutions mature, particularly with respect to their ability to support the public sector, the state

should plan on modifying the classification structure to take advantages of new or enhanced features, functions and capabilities.

- **Operations, Support and Maintenance Capacity**: The ability to communicate, evaluate, educate and support new or changed business processes should be planned for. Changes to the classification structure will be constrained by the state's ERP operations, support, and maintenance capacity.

It is critical that the state establish a process for maintaining the classification structure – reviewing, evaluating, modifying and/or expanding classification elements and relationships. The process should support the state's ability to respond to changing business requirements and ERP system evolution, while not jeopardizing the successful operation and maintenance of the system.

A recommended strategy for maintaining the chart of accounts is presented below. This recommendation incorporates COA Strategy Panel participant input gathered during the COA Strategy panels conducted on June 13, 2006 and July 12, 2006.

6.9.2 Organization

The following organizational strategies are recommended to expand the current governing structure.

Reorganize the current Governing Body – "The UCM Committee" – It is recommended that the state charter a multi-department UCM Committee with ultimate responsibility for the review and approval of changes to the classification structure. Membership would consist of financial control agency representatives responsible for the operation of the ERP and a cross-section of user departments. Recommended participation on the governing body included the following departments:

- Finance [5]
  - Fiscal Systems Consulting Unit (FSCU) *Chair*
  - CALSTARS Unit
  - Budget Operations Support (BOS) Unit
  - Office of State Audits and Evaluation (OSAE)
- SCO
  - Division of Accounting and Reporting
- Bureau of State Audits (BSA)
- Department of General Services (DGS)
- State Treasurer's Office (STO)
- Rotating participation from a cross section of departments
  - Rotate members every two years
  - Representation from large, medium, and small departments based on budget size
  - Representation from CALSTARS (BIS) and non-CALSTARS (BIS) departments

[5] This reflects the current business units within Finance. The state should assume that there may be organizational restructuring within Finance with the implementation of BIS.

The panel recommended that during the first year of initial ERP operation, the UCM Committee meet monthly, and thereafter, semi-annually. It was also suggested that there might be times when an ad-hoc meeting would be required to address a specific need, and such a meeting could be requested by the UCM User Group (discussed below). For example, during the ERP rollout to a new group of departments the Committee would need to be involved in requested classification changes.

Offer a Vehicle for User Input – "UCM User Group" – Another key element of this strategy is the formal institution of a UCM User Group hosted and facilitated by Finance's FSCU. This group would provide a forum for broader departmental participation and provide for more frequent discussions about statewide and departmental needs related to the chart of accounts. The UCM Group will be the forum to:

- Disseminate and clarify information from the UCM Committee
- Conduct informal user training
- Identify, discuss and recommend proposed classification structure changes.
- Identify or bring forward system enhancements or modifications requests

Ideally, departmental staff would have the opportunity to present their recommendations and requests to the User Group. Changes supported by the User Group would be presented to the UCM Committee for consideration. Approved changes would be communicated to departments through members of the UCM User Group.

The UCM User Group would have additional responsibilities, such as providing a forum for informal training discussions and presentations (e.g. brown-bag lunches), and working with the ERP vendor to review pending/proposed system changes and their potential impact on the classification structure.

The proposed frequency for User Group meetings is monthly during the first year of ERP operation and quarterly thereafter. As with the UCM Committee, ad-hoc meetings would likely be necessary during the ERP rollout period.

Establish an Internal Knowledge Bank or "Center of Excellence" – As discussed previously in this document, and as highlighted by COA Strategy Panel participants, training is a critical element of the initial ERP implementation, and is crucial to the ongoing success of the ERP system. When considering the broad nature of an ERP solution, any training conducted around the COA should relate to the business processes and system functions supported by the new system. In addition, the state will want to leverage experience, "tips and tricks" and proven training methods developed through successive rollouts to the state's departments. A central organization or "Center of Excellence" can serve this function.

Prior to and during the ERP implementation, the state should establish a Center of Excellence, staffed with state personnel who are subject matter experts in state processes and trained in the ERP solution. These experts can supplement the integrator team during the implementation, and provide critical post-implementation support after the ERP is in operation. The Center of Excellence would also be responsible for maintaining the training curriculum and delivering training to the user community after implementation (i.e., first year-end). The Center of Excellence also provides a mechanism for minimizing the loss of knowledge and system skills as staff turnover, retire or otherwise leave a department. Finally, these experts can catalog, update and maintain relevant documentation on system configuration, departmental “best practices” and training methodologies that were most effective during each rollout. In these varied roles, they serve as consultants and trainers to the departments.

The Center of Excellence concept can be integrated into the formation of the implementation team and built upon with each successive ERP rollout (assuming the BIS deployment is conducted in phases or waves).

6.9.3 COA Maintenance Roles and Responsibilities

The following table summarizes the recommended roles and responsibilities.

Organization	Role / Authority	Participation	Meeting Frequency
UCM Committee	— Considers recommendations from the UCM User Group — The governing body with the final authority	— State Controller’s Office — Department of Finance — Bureau of State Audits — Departments (Rotating)	— Monthly (during ERP implementation and first year of operations) — Semi-Annually after first year of operations — If needed, as recommended by UCM User Group
UCM User Group	— Discusses requests from users — Recommends changes to UCM Committee — Forum for training and disseminating information	— Provides input to the UCM Committee — Hosted and facilitated by Finance’s FSCU	— Monthly (during ERP implementation and first year of operations) — Quarterly after first year of operations
Center of Excellence	— Provides system support to the user community — Develops training curriculum and delivers training	Subject matter experts	Not Applicable

Table 3 – Classification Structure Maintenance Organizations

Although outside the scope of this document, many of the current system design decisions, including the COA/UCM, reflect existing legislative requirements, state regulations and other business or reporting dictates. There will likely be opportunities for improvements, simplification and efficiencies in the COA and business processes using an ERP solution if there is flexibility in how design constraints are satisfied.

7 Deliverable Acceptance

This deliverable consists of the Strategy/Business Case for COA Revisions for the Chart of Accounts Acquisition Project.

The above deliverable has been reviewed by the Department of Finance and fully meets the objectives expressed by the Department of Finance and Informatix, Inc. and subject to formal change control.

Michele Blanc, Director, Informatix Incorporated Date

Sue Bost, Finance BIS Project Director Date